CIT GROUP INC
Form 10-K
March 01, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

|X| Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2012

or

| | Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 001-31369

CIT GROUP INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**65-1051192** (IRS Employer Identification No.)
11 West 42nd Street, New York, New York (Address of Registrant s principal executive offices)	**10036** (Zip Code)

(212) 461-5200
Registrant s telephone number including area code:

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes |X| No | |

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes | | No |X|

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No | |

Indicate by check mark whether the registrant has submitted electronically and posted on its Corporate Web site, if any, every interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes |X| No | |

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this Chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in

Part III of this Form 10-K or any amendment to this Form 10-K. | |

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (check one)
Large accelerated filer |X| Accelerated filer | |
Non-accelerated filer | | Smaller reporting company | |

At February 11, 2013, there were 201,077,039 shares of CIT s common stock, par value $0.01 per share, outstanding.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes | | No |X|

The aggregate market value of voting common stock held by non-affiliates of the registrant, based on the New York Stock Exchange Composite Transaction closing price of Common Stock ($35.64 per share, 200,456,564 shares of common stock outstanding), which occurred on June 30, 2012, was $7,144,271,941. For purposes of this computation, all officers and directors of the registrant are deemed to be affiliates. Such determination shall not be deemed an admission that such officers and directors are, in fact, affiliates of the registrant.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.
Yes |X| No | |

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement relating to the 2013 Annual Meeting of Stockholders are incorporated by reference into Part III hereof to the extent described herein.

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PART ONE

Item 1: Business Overview

BUSINESS DESCRIPTION

CIT Group Inc., together with its subsidiaries (we , our , CIT or the Company) has provided financial solutions to its clients since its formation in 1908. CIT became a bank holding company (BHC) in December 2008, and is regulated by the Board of Governors of the Federal Reserve System (FRS) and the Federal Reserve Bank of New York (FRBNY) under the U.S. Bank Holding Company Act of 1956 (BHC Act). CIT Bank, a wholly-owned subsidiary, is a state chartered bank located in Salt Lake City, Utah, that offers commercial financing and leasing products as well as deposit products, such as certificates of deposits (CDs) and savings accounts.

We operate primarily in North America, with locations in Europe, South America and Asia. We are a commercial lender and lessor, providing financial solutions to small businesses and middle market companies. Our clients operate in over 20 countries and in over 30 industries, including transportation, particularly aerospace and rail, manufacturing and retail. We originated over $9 billion of funded new business volume during 2012 and have nearly $34 billion of financing and leasing assets at December 31, 2012.

Each business has industry alignment and focuses on specific sectors, products and markets, with portfolios diversified by client and geography. Our principal product and service offerings include:

Products and Services	
Account receivables collection	Factoring services
Acquisition and expansion financing	Financial risk management
Asset management and servicing	Import and export financing
Asset-based loans	Insurance services
Credit protection	Leases: operating, capital and leveraged
Debt restructuring	Letters of credit / trade acceptances
Debt underwriting and syndication	Mergers and acquisition advisory services
Debtor-in-possession / turnaround financing	Secured lines of credit
Deposits (certificates of deposit, savings accounts)	Small business loans
Enterprise value and cash flow loans	Vendor financing

We source business through marketing efforts directly to borrowers, lessees, manufacturers, vendors and distributors, and through referral sources and other intermediaries. We also buy participations in syndications of finance receivables and lines of credit and periodically purchase finance receivables on a whole-loan basis.

We generate revenue by earning interest on loans we hold on our balance sheet, collecting rentals on equipment we lease, and earning fee and other income for financial services we provide. We syndicate and sell certain finance receivables and equipment to leverage our origination capabilities, reduce concentrations, manage our balance sheet and maintain liquidity.

We set underwriting standards for each business unit and employ portfolio risk management models to achieve desired portfolio demographics. Our collection and servicing operations are organized by business and geography in order to provide efficient client interfaces and uniform customer experiences.

Our primary bank subsidiary is CIT Bank, a state chartered bank located in Salt Lake City, Utah. CIT Bank is subject to regulation and examination by the Federal Deposit Insurance Corporation (FDIC) and the Utah Department of Financial Institutions (UDFI). Though non-bank subsidiaries, both in the U.S. and abroad, currently own the majority of the Company s assets as of December 31, 2012, the vast majority of new U.S. business volume and asset growth is being originated in CIT Bank.

BUSINESS SEGMENTS

CIT meets customer financing requirements through five reportable business segments.

SEGMENT	MARKET AND SERVICES
Corporate Finance	Lending, leasing and other financial and advisory services, to small and middle-market companies across select industries.
Transportation Finance	Large ticket equipment leases and other secured financing, primarily to companies in aerospace and rail industries.
Trade Finance	Factoring, receivables management products and secured financing to retail supply chain companies.
Vendor Finance	Partners with manufacturers and distributors to deliver financing and leasing solutions to end-user customers.
Consumer	Government-guaranteed student loan portfolios, which are in run-off.

Financial information about our segments is located in *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations* and *Item 8. Financial Statements and Supplementary Data (Note 23 - Business Segment Information).*

CORPORATE FINANCE

Corporate Finance provides a range of financing options and offers advisory services to small and medium size companies in the U.S. and Canada and has a specialized lending unit focused on financial sponsors in Europe. Corporate Finance core products include asset-based and cash flow lending, fee-based advisory products (e.g., financial advisory, M&A) for middle-market customers, equipment leasing and financing, and commercial real estate financing.

Corporate Finance offers a product suite primarily composed of senior secured loans collateralized by accounts receivable, inventory, machinery & equipment and intangibles to finance various needs of our customers, such as working capital, plant expansion, acquisitions and recapitalizations. These loans include revolving lines of credit and term loans and, depending on the nature and quality of the collateral, may be referred to as asset-based loans or cash flow loans. We also have a portfolio of SBA 7(a) guaranteed loans, which are partially guaranteed by the U.S. Small Business Administration (SBA).

Middle Market Lending business provides financing to customers in a wide range of industries (including Commercial & Industrial, Communications, Media & Entertainment, Healthcare, and Energy):

- Commercial & Industrial includes wholesale trade (both durable and non-durable goods), business services, miscellaneous retail, chemicals and allied products, food and kindred products and numerous other industries.

- Communications, Media, & Entertainment includes broadcast, cable, entertainment, gaming, sports franchise, telephony, wireless and tower, and other related industries.

- Healthcare includes skilled nursing facilities, home health and hospice companies, acute care hospitals, dialysis companies and outpatient services, among others.

- Energy clients are in industries that include conventional and renewable power generation, coal mining, oil and gas production, and energy services.

Commercial Real Estate Finance (REF) provides senior secured commercial real estate loans to developers and other commercial real estate professionals. REF focuses on stable, cash flowing properties and originates construction loans to highly experienced and well capitalized developers.

Key risks faced by Corporate Finance are credit risk, business risk and asset risk. Risks associated with secured financings relate to the ability of the borrower to repay its loan and the value of the collateral underlying the loan should the borrower default on its obligations.

Corporate Finance is exposed to business risk related to its ability to profitably originate and price new business. Demand for CIT s Corporate Finance services is broadly affected by the level of economic growth and is more specifically affected by the level of economic activity in CIT s target industries. If demand for CIT s products and services declines, then new business volume originated by CIT Corporate Finance will decline. Likewise, changes in supply and demand of CIT s products and services also affect the pricing CIT can command from the market.

Specific to syndications activity, Corporate Finance is exposed to business risk related to fee income from syndication/club deal activity. In such transactions CIT earns fees for arranging and selling loan exposures to other lenders. Under adverse market circumstances, CIT would be exposed to risk arising from the inability to sell loans on to other lenders.

In our small business lending, the collateral consists in most instances of real estate. If it was determined that an SBA loan was not underwritten or serviced correctly, the SBA guarantee would not be honored.

TRANSPORTATION FINANCE

Transportation Finance is a leading provider of aircraft and railcar leasing and financing solutions to operators and suppliers in the global aviation and North American rail car industries. We also provide lending and other financial products and services to companies in the transportation sector including those in the business aircraft, maritime and aerospace and defense industries. Transportation Finance operates through five specialized business units: Commercial Air, Rail, Business Air, Transportation Lending, and Maritime Finance, with Commercial Air and Rail accounting for the vast majority of the segment s assets, revenues and earnings. Maritime Finance was launched as a distinct business in the fourth quarter of 2012, although CIT has periodically financed assets within the sector on a small scale.

We have achieved a leadership position in transportation finance by leveraging our deep industry experience and core strengths in technical asset management, customer relationship management and credit analysis. We have extensive experience in managing equipment over its full life cycle, including purchasing new equipment, estimating residual values and remarketing by re-leasing or selling equipment. Transportation Finance is a global business, with leasing operations (primarily aerospace) around the world and expanding lending platforms.

Commercial Air provides aircraft leasing and lending, asset management, aircraft valuation and advisory services. The unit s primary clients include global and regional airlines around the world. Offices are located in the U.S., Europe and Asia. As of December 31, 2012, our commercial aerospace financing and leasing portfolio consists of over 300 aircraft with a weighted average age of 5 years, which are placed with about 100 clients.

Rail leases railcar equipment to railroads and shippers throughout North America. We serve approximately 500 customers, including all of the U.S. and Canadian Class I railroads (railroads with annual revenues of at least $250 million) and other non-rail companies, such as shippers and power and energy companies. Our operating lease fleet consists of more than 100,000 rail cars, including covered hopper cars used to ship grain and agricultural products, plastic pellets and cement, gondola cars for coal, steel coil and mill service, open hopper cars for coal and aggregates, center beam flat cars for lumber, boxcars for paper and auto parts, tank cars, and approximately 400 locomotives.

Business Air offers financing and leasing programs for corporate and private owners of business jet aircraft, primarily in the U.S.

Transportation Lending provides loan and lease financing solutions to companies within the aerospace, defense and other

transportation sectors, directly or through financial sponsors and intermediaries.

Maritime Finance offers secured loans to owners and operators of oceangoing and inland cargo vessels, as well as offshore vessels and drilling rigs.

The primary asset type held by Transportation Finance is equipment that the business purchases (predominantly commercial aircraft and railcars) and leases to commercial end-users. The typical structure for leasing of large ticket transportation assets is an operating lease. Transportation Finance also has a loan portfolio consisting primarily of senior, secured loans. The primary source of revenue for Transportation Finance is rents collected on leased assets, and to a lesser extent interest on loans, fees for services provided, and gains from assets sold.

The primary risks for Transportation Finance are asset risk (resulting from ownership of the equipment on operating lease) and credit risk. Asset risk arises from fluctuations in supply and demand for underlying equipment leased. Transportation Finance invests in long-lived equipment; commercial aircraft have a useful life of approximately 20-25 years and railcars/locomotives have useful lives of approximately 35-50 years. This equipment is then leased to commercial end-users with average lease terms of approximately 5-10 years. CIT is exposed to the risk that, at the end of the lease term, the value of the asset will be lower than expected, resulting in reduced future lease income over the remaining life of the asset or a lower sale value.

Asset risk is generally recognized through changes to lease income streams from fluctuations in lease rates and/or utilization. Changes to lease income occur when the existing lease contract expires, the asset comes off lease, and Transportation Finance seeks to enter a new lease agreement. Asset risk may also change depreciation, resulting from changes in the residual value of the operating lease asset or through impairment of the asset carrying value.

Credit risk in the leased equipment portfolio results from the potential default of lessees, possibly driven by obligor specific or industry-wide conditions, and is economically less significant than asset risk for Transportation Finance, because in the operating lease business, there is no extension of credit to the obligor. Instead, the lessor deploys a portion of the useful life of the asset. Credit losses manifest through multiple parts of the income statement including loss of lease/rental income due to missed payments, time off lease, or lower rental payments than the existing contract either due to a restructuring or re-leasing of the asset to another obligor as well as higher expenses due to, for example, repossession costs to obtain, refurbish, and re-lease assets. Credit risk associated with loans relates to the ability of the borrower to repay its loan and the Company s ability to realize the value of the collateral underlying the loan should the borrower default on its obligations. Risks associated with cash flow loans relate to the collectability of the loans should there be a decline in the credit worthiness of the client.

See *Concentrations* section of *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations* and *Note 19 Commitments of Item 8. Financial Statements and Supplementary Data* for further discussion of our aerospace and rail portfolios.

TRADE FINANCE

Trade Finance offers a full range of domestic and international customized credit protection, lending and outsourcing services that include working capital and term loans, factoring, receivable management products, bulk purchases of accounts receivable, import and export financing and letter of credit programs to clients. A client (typically a manufacturer or importer of goods) is the counterparty to any factoring agreement, financing agreement, or receivables purchasing agreement that has been entered into with Trade Finance. Trade Finance services businesses that operate in several industries, including apparel, textile, furniture, home furnishings and consumer electronics. Trade Finance also can arrange for letters of credit, collateralized by accounts receivable and other assets, to be opened for the benefit of its clients suppliers. Although primarily U.S. based, Trade Finance also conducts business with clients and their customers internationally. Revenue is generated from commissions earned on factoring and related activities, interest on loans and other service fees.

Trade Finance typically provides financing to its clients through the factoring of their accounts receivable owed to them by their customers. A customer (typically a wholesaler or retailer) is the account debtor and obligor on trade accounts receivable that have been factored with and assigned to the factor. The assignment of accounts receivable by a client to a factor is traditionally known as factoring and results in payment by the client of a factoring commission that is commensurate with the underlying degree of credit risk and recourse, and which is generally a percentage of the factored receivables or sales volume. In addition to factoring commission and fees, Trade Finance may advance funds to its clients, typically in an amount up to 90% of eligible accounts receivable, charging interest on the advance, and satisfying the advance by the collection of factored accounts receivable. Trade Finance often integrates its clients operating systems with its own operating systems to facilitate the factoring relationship.

Clients use the products and services of Trade Finance for various purposes, including improving cash flow, mitigating or reducing customer credit risk, increasing sales, improving management systems information and outsourcing their bookkeeping, collection, and other receivable processing to Trade Finance.

The products and services provided by Trade Finance entail two dimensions of credit risk, customer and client. The largest risk for Trade Finance is customer credit risk in factoring transactions. Customer risk relates to the financial inability of a customer to pay on undisputed trade accounts receivable due from such customer to the factor. While smaller than customer credit exposure, there is also client credit risk in providing cash advances to factoring clients. Client risk relates to a decline in the credit worthiness of a borrowing client, their consequent inability to repay their loan to Trade Finance and the possible insufficiency of the underlying collateral (including the aforementioned customer accounts receivable) to cover any loan repayment shortfall. At December 31, 2012, client credit risk accounted for approximately 10% of total Trade credit exposure while customer credit risk accounted for the remaining 90%.

Trade Finance is also subject to a variety of business risks including operational, regulatory, financial as well as business risks

related to competitive pressures from other banks, boutique factors, and credit insurers. These pressures create risk of reduced pricing and volume for CIT. In addition, client de-factoring can occur if retail credit conditions are benign for a long period and clients no longer demand factoring services for credit protection.

VENDOR FINANCE

Vendor Finance is a market leader in developing customized business solutions for small businesses and middle market companies, providing equipment financing and value-added services. Working with manufacturers, distributors and product resellers across multiple industries, we develop financing programs and financial solutions tailored to the commercial end-user customer s needs that can enable increased sales by our vendor partners.

We provide customer-centric programs ranging from structured to referral programs. A key part of these partnership programs is integrating with the go-to-market strategy of our vendor partners and leveraging the vendor partners sales process, thereby maximizing efficiency and effectiveness.

These alliances allow our partners to focus on core competencies, reduce capital needs and drive incremental sales volume. We offer our partners (1) financing to end-user customers for purchase or lease of products, (2) enhanced sales tools such as asset management services, loan processing and real-time credit adjudication, and (3) tailored customer service.

Vendor Finance end-user customers are diverse, ranging from sole proprietors to multi-national corporations, but we are largely focused on small and middle market customers across a diversified set of industries.

Vendor Finance finances three primary types of equipment, information technology, telecom, and office equipment, but in some geographies, Vendor Finance also finances other types of equipment, such as healthcare, transportation, industrial equipment, printing and construction.

Vendor Finance (U.S. and internationally) offers in-country origination and regional servicing centers in many major markets around the world, industry and geographic expertise, and dedicated sales and credit teams. Our products include standard and customized financial solutions that meet vendor partner and end-user customer requirements, including asset-backed loans, capital leases and usage-based programs to the customers.

Key risks faced by Vendor Finance are credit risk, asset risk and business risk. The primary risk in Vendor Finance is credit risk, which arises through exposures to commercial customers in equipment leasing and financing transactions and their ability to repay their loans.

Another risk to which Vendor Finance is exposed is asset risk, namely that at the end of the lease term, the value of the asset will be lower than expected, resulting in reduced future lease income over the remaining life of the asset or a lower sale value.

Vendor Finance is also subject to business risk related to new business volume and pricing of new business. New business volume is impacted by economic conditions that affect business growth and expenditures, ultimately affecting global demand for essential-use equipment in CIT s areas of expertise. Additionally, volume is influenced by CIT s ability to maintain and develop relationships with its vendor partners. With regard to pricing, CIT s Vendor Finance business is subject to potential threats from competitor activity or disintermediation by vendor partners, which could negatively affect CIT s margins.

CONSUMER

Our Consumer segment consists of a portfolio of U.S. Government-guaranteed student loans that is currently in run-off. We ceased offering private student loans in 2007 and government-guaranteed student loans in 2008. CIT s risk relates mainly to the ability of the borrower to repay its loan and is primarily limited to the portion, generally 2% 3%, that is not guaranteed by the U.S. Government. CIT also has a risk that it will be denied payment under the guarantee if it is determined that CIT committed a violation of applicable law or regulation in connection with its origination or servicing of the loan. CIT does not consider this risk material.

See *Concentrations* section of *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations* for further discussion of our student lending portfolios.

CORPORATE AND OTHER

Certain activities are not attributed to operating segments and are included in Corporate and Other. The most significant items for 2012 and 2011 are the net loss on debt extinguishments and costs associated with cash liquidity in excess of the amount required by the business units that management determines is prudent for the overall Company. In 2011 and 2010, Corporate and Other also included prepayment penalties associated with debt repayments (there were no such penalties in 2012). In each of 2012, 2011 and 2010, Corporate and Other includes mark-to-market adjustments on non-qualifying derivatives and restructuring charges for severance and facilities exit activities.

In 2011, we refined our capital and interest allocation methodologies for our segments. Management considered these to be changes in estimations to better refine segment profitability for users of the financial information. The Company did not conform prior periods, but has included certain 2010 data in *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations* and *Item 8. Financial Statements and Supplementary Data (Note 23 Business Segment Information)* to assist in the year over year comparability.

CIT BANK

Founded in 2000, CIT Bank (Member FDIC) is a wholly-owned subsidiary of CIT Group Inc. It is regulated by the FDIC and the UDFI. CIT Bank raises deposits from retail and institutional investors primarily through its online bank (www.BankOnCIT.com) and through broker channels in order to fund its lending activities. Its existing suite of deposit products include Certificates of Deposit (Achiever, Jumbo, and Term) and Savings Accounts.

CIT Bank s assets are primarily commercial loans and leases of CIT s four commercial segments. The commercial loans and leases originated in CIT Bank are reported in the respective commercial segment, i.e. Corporate Finance, Trade Finance, Transportation Finance and Vendor Finance. In 2012, nearly all of CIT s U.S. new business originations were in CIT Bank.

CIT Bank made significant progress in 2012, raising more than $4.5 billion in online deposits; expanding its business activities to include equipment financing, commercial real estate lending and railcar leasing; and closing a committed funding facility to support financing to U.S. middle market businesses.

At year-end, CIT Bank remained well capitalized, maintaining Tier 1 and Total Capital ratios well above required levels.

EMPLOYEES

CIT employed approximately 3,560 people at December 31, 2012, of which approximately 2,630 were employed in the U.S. and 930 outside the U.S.

COMPETITION

Our markets are competitive, based on factors that vary by product, customer, and geographic region. Our competitors include global and domestic commercial and investment banks, regional and community banks, captive finance companies, and leasing companies. In most of our business segments, we have a few large competitors with significant penetration and many smaller niche competitors.

Many of our competitors are large companies with substantial financial, technological, and marketing resources. Our customer value proposition is primarily based on financing terms, structure, client service and price. From time to time, due to highly competitive markets, we may (i) lose market share if we are unwilling to match product structure, pricing, or terms of our competitors that do not meet our credit standards or return requirements or (ii) receive lower returns or incur higher credit losses if we match our competitors product structure, pricing, or terms.

There has been substantial consolidation and convergence among companies in the financial services industry. The trend toward consolidation and convergence significantly increased the geographic reach of some of our competitors and hastened the globalization of financial services markets. To take advantage of some of our most significant international challenges and opportunities, we must continue to compete successfully with financial institutions that are larger, have better access to low cost funding, and may have a stronger local presence and longer operating history outside the U.S.

As a result, we tend not to compete on price, but rather on industry experience, asset and equipment knowledge, and customer service. The regulatory environment in which we and/or our customers operate also affects our competitive position.

2009 RESTRUCTURING

On November 1, 2009, the parent company (CIT Group Inc.) and one non-operating subsidiary, CIT Group Funding Company of Delaware LLC (Delaware Funding), filed prepackaged voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code. CIT emerged from bankruptcy on December 10, 2009. None of the documents filed with the bankruptcy court are incorporated by reference into this Form 10-K and such documents should not be considered or relied on in making any investment decisions involving our common stock or other securities.

The information contained in this annual report about CIT for the years ended December 31, 2012, 2011 and 2010, reflect the impact of fresh start accounting adjustments, and is not necessarily comparable with information provided for prior periods. Further discussions of these events were disclosed in our Form 10-K for the year ended December 31, 2011, *Item 8. Financial Statements and Supplementary Data (Notes 1 and 26)*.

REGULATION

We are extensively regulated by federal and state banking laws, regulations and policies. Such laws and regulations are intended primarily for the protection of depositors, customers and the federal deposit insurance fund (DIF), as well as to minimize risk to the banking system as a whole, and not for the protection of our shareholders or non-depository creditors. Bank regulatory agencies have broad examination and enforcement power over bank holding companies (BHCs) and their subsidiaries, including the power to impose substantial fines, limit dividends, restrict operations and acquisitions and require divestitures. BHCs and banks, as well as subsidiaries of both, are prohibited by law from engaging in practices that the relevant regulatory authority deems unsafe or unsound. CIT is a BHC subject to regulation and examination by the Board of Governors of the Federal Reserve System (FRB) and the FRBNY under the BHC Act. As a BHC, CIT is subject to certain limitations on our activities, transactions with affiliates, and payment of dividends and certain standards for capital and liquidity, safety and soundness, and incentive compensation, among other matters. Under the system of functional regulation established under the BHC Act, the FRB supervises CIT, including all of its non-bank subsidiaries, as an umbrella regulator of the consolidated organization. CIT Bank is chartered as a state bank by the UDFI and is not a member bank of the Federal Reserve System. CIT s principal regulator is the FRB and CIT Bank s principal regulators are the FDIC and the UDFI.

Certain of our subsidiaries are subject to regulation by other governmental agencies. Student Loan Xpress, Inc., a Delaware corporation, conducts its business through various third party banks authorized by the Department of Education, including Fifth Third Bank, Manufacturers and Traders Trust Company, and The Bank of New York Mellon, as eligible lender trustees. CIT Small Business Lending Corporation, a Delaware corporation, is licensed by and subject to regulation and examination by the U.S. Small Business Administration (SBA). The portfolio of government guaranteed small business loans in CIT Bank are also subject to regulation and examination by the SBA. CIT Capital Securities L.L.C., a Delaware limited liability company, is a broker-dealer licensed by the Financial Industry Regulatory Authority (FINRA), and is subject to regulation by FINRA and the Securities and Exchange Commission (SEC).

Our insurance operations are primarily conducted through The Equipment Insurance Company, a Vermont corporation; CIT Insurance Company Limited, a Missouri corporation; CIT Insurance Agency, Inc., a Delaware corporation; and Equipment Protection Services (Europe) Limited, an Irish company. Each company is licensed to enter into insurance contracts and is subject to regulation and examination by insurance regulators. We have various other banking corporations in Brazil, France, Italy, and Sweden, each of which is subject to regulation and examination by banking and securities regulators. CIT Bank Limited, an English corporation, is licensed as a bank and broker-dealer and is subject to regulation and examination by the Financial Services Authority of the United Kingdom.

The regulation and oversight of the financial services industry have undergone significant revision in the past several years. In particular, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which was enacted in July 2010, made extensive changes to the regulatory structure and environment affecting banks, BHCs, non-bank financial companies, broker dealers, and investment advisory and management firms. The Dodd-Frank Act requires extensive rulemaking by various regulatory agencies, which is ongoing. Any changes resulting from the Dodd-Frank Act rulemaking process, as well as any other changes in the laws or regulations applicable to us more generally, may negatively impact the profitability of our business activities, require us to change certain of our business practices, materially affect our business model or affect retention of key personnel, require us to raise additional regulatory capital, increase the amount of liquid assets that we hold, otherwise affect our funding profile or expose us to additional costs (including increased compliance costs). Any such changes may also require us to invest significant management attention and resources to make any necessary changes and may adversely affect our ability to conduct our business as previously conducted or our results of operations or financial condition.

Written Agreement

On August 12, 2009, CIT entered into a Written Agreement with the FRBNY. The Written Agreement requires regular reporting to the FRBNY, the submission of plans related to corporate governance, credit risk management, capital, liquidity and funds management, the Company s business and the review and revision, as appropriate, of the Company s consolidated allowances for loan and lease losses methodology. CIT must obtain prior written approval by the FRBNY for payment of dividends and distributions; incurrence of debt, other than in the ordinary course of business; and the purchase or redemption of stock. The Written Agreement also requires CIT to notify the FRBNY prior to the appointment of new directors or senior executive officers; and places restrictions on indemnification and severance payments.

Pursuant to the requirements of the Written Agreement, CIT has increased its staffing of critical senior control functions, including corporate risk management, regulatory reporting, compliance, and internal audit. CIT also refined and improved its credit evaluation processes and procedures, the calculation of its allowance for loan and lease losses, and its credit reporting to senior management and the Board of Directors (the Board), including providing additional training to credit officers. Under its capital and liquidity plans, CIT has retained significant cash balances to manage short term funding risk, modified its debt structure to develop more diverse market access, and enhanced its capital allocation model and stress tests to better monitor its capital requirements. The primary impact of the Written Agreement on CIT s financial results has been to increase expense levels as a result of additional hiring in control functions and additional expenditures on consultants and systems and technology, most of which would have been incurred in any event.

Pursuant to the Written Agreement, the Board appointed a Special Compliance Committee of the Board to monitor and coordinate compliance with the Written Agreement. We provide periodic reports to the FRBNY on our progress in fulfilling the requirements of the Written Agreement. Management believes it

has satisfied the requirements of the Written Agreement and continues to communicate closely with the FRBNY.

Banking Supervision and Regulation

Bank Holding Company Activities

In general the BHC Act limits the business of BHCs that have not elected to be treated as financial holding companies under the BHC Act to banking, managing or controlling banks, performing servicing activities for subsidiaries, and engaging in activities that the FRB has determined, by order or regulation, are so closely related to banking as to be a proper incident thereto. CIT is a BHC that has not elected to be treated as a financial holding company under the BHC Act.

The Dodd-Frank Act places additional limits on the activities of banks and their affiliates by prohibiting them from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds) and requires the federal financial regulatory agencies to adopt rules implementing these prohibitions. This statutory provision is commonly called the Volcker Rule . It became effective in July 2012, and banking entities subject to the Volcker Rule have two years, until July 2014, to bring their activities and investments into compliance with the rule s requirements. In October 2011, federal regulators proposed rules to implement the Volcker Rule that included an extensive request for comments on the proposal. Although the comment period has closed, a final rule has not been adopted. The proposed rules are highly complex, and many aspects of their application remain uncertain. Based on the proposed rules, CIT does not currently anticipate that the Volcker Rule will have a material effect on the operations of CIT and its subsidiaries. CIT would incur costs if it is required to adopt additional policies and systems to ensure compliance with the Volcker Rule. Until a final rule is adopted, the precise financial impact of the rule on CIT, its customers or the financial industry more generally cannot be determined.

Capital Requirements

As a BHC, CIT is subject to consolidated regulatory capital requirements administered by the FRB. CIT Bank is subject to similar capital requirements administered by the FDIC. The current risk-based capital guidelines applicable to CIT are based upon the 1988 capital accord (Basel I) of the Basel Committee on Banking Supervision (the Basel Committee).

General Risk-Based Capital Requirements. CIT computes and reports its risk-based capital ratios in accordance with the general risk based capital rules set by the U.S. banking agencies and based upon Basel I. As applicable to CIT, Tier 1 capital generally includes common shareholders equity, retained earnings, and minority interests in equity accounts of consolidated subsidiaries, less the effect of certain items in accumulated other comprehensive income, goodwill and intangible assets, one-half of the investment in unconsolidated subsidiaries and other adjustments. Under currently applicable guidelines, Tier 1 capital can also include qualifying non-cumulative perpetual preferred stock and a limited amount of trust preferred securities and qualifying cumulative perpetual preferred stock, none of which CIT currently has outstanding. Tier 2 capital consists of the allowance for credit losses up to 1.25 percent of risk-weighted assets less one-half of the investment in unconsolidated subsidiaries and other adjustments. In addition, Tier 2 capital includes perpetual preferred stock not qualifying as Tier 1 capital, qualifying mandatory convertible debt securities, and qualifying subordinated debt, none of which CIT currently has outstanding. The sum of Tier 1 and Tier 2 capital represents our qualifying total capital . Our Tier 1 capital must represent at least half of our qualifying total capital . Under the capital guidelines of the FRB, assets and certain off-balance sheet commitments and obligations, which are assigned asset equivalent weightings, are divided into risk categories, each of which is assigned a risk weighting ranging from 0% (e.g., for U.S. Treasury Bonds) to

100%.

CIT, like other BHCs, currently is required to maintain Tier 1 capital and total capital equal to at least 4.0% and 8.0%, respectively, of its total risk-weighted assets (including various off-balance sheet items, such as letters of credit). CIT Bank, like other depository institutions, is required to maintain equivalent capital levels under capital adequacy guidelines. In addition, for a depository institution to be considered well capitalized under the regulatory framework for prompt corrective action discussed under *Prompt Corrective Action* below, its Tier 1 capital and total capital ratios must be at least 6.0% and 10.0% on a risk-adjusted basis, respectively.

CIT has committed to the FRB to maintain a total capital ratio of 13.0%. CIT s Tier 1 capital and total capital ratios at December 31, 2012 were 16.3% and 17.0%, respectively. CIT Bank s Tier 1 capital and total capital ratios at December 31, 2012 were 21.5% and 22.7%, respectively. The calculation of regulatory capital ratios by CIT is subject to review and consultation with the FRB, or the FDIC in the case of CIT Bank, which may result in refinements to estimated amounts.

Leverage Requirements. BHCs and depository institutions are also required to comply with minimum Tier 1 Leverage ratio requirements. The Tier 1 Leverage ratio is the ratio of a banking organization s Tier 1 capital to its total adjusted quarterly average assets (as defined for regulatory purposes). BHCs and FDIC-supervised banks that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority s risk-adjusted measure for market risk are required to maintain a minimum Tier 1 Leverage ratio of 3.0%. All other BHCs and FDIC-supervised banks are required to maintain a minimum Tier 1 Leverage ratio of 4.0%, unless a different minimum is specified by an appropriate regulatory authority. In addition, for a depository institution to be considered well capitalized under the regulatory framework for prompt corrective action discussed under *Prompt Corrective Action* below, its Tier 1 Leverage ratio must be at least 5.0%.

At December 31, 2012, CIT s Tier 1 leverage ratio was 18.3% and CIT Bank s Tier 1 leverage ratio was 20.2%.

Basel III and the New Standardized Risk-based Approach. In June 2012, the U.S. banking agencies issued three joint notices of proposed rulemaking (NPRs) that would substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, such as CIT and CIT Bank, compared to the current U.S. risk-based capital rules based on Basel I. The NPRs would implement the additional guidelines for strengthening international capital and liquidity regulation (Basel III) for U.S. banking organizations largely as proposed by the Basel Committee. The first NPR, the Basel III NPR, restricts the

definition of regulatory capital, introduces a new common equity Tier 1 capital requirement, and proposes higher minimum regulatory capital requirements, including a requirement that institutions maintain a capital conservation buffer above the heightened minimum regulatory capital requirements to absorb losses during periods of economic stress. The Basel III NPR also limits the ability of institutions to pay dividends and other capital distributions and certain discretionary bonuses if regulatory capital levels decline into the capital conservation buffer.

Basel III revisions governing capital requirements are subject to a phased-in transition period, with full implementation on January 1, 2019. If Basel III is fully implemented in the current form, CIT will be required to maintain risk-based capital ratios at January 1, 2019 as follows:

	Minimum Capital Requirements January 1, 2019		
	Tier 1 Common Equity	**Tier 1 Capital**	**Total Capital**
Stated minimum ratio	4.5%	6.0%	8.0%
Capital conservation buffer	2.5%	2.5%	2.5%
Effective minimum ratio	7.0%	8.5%	10.5%

The Basel III NPR would also revise the prompt corrective action framework discussed under *Prompt Corrective Action* below by (i) introducing a common equity Tier 1 capital ratio requirement at each level (other than critically undercapitalized), with the required common equity Tier 1 capital ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8.0% (as compared to the current 6.0%); and (iii) eliminating the current provision that certain highly-rated depository institutions may have a 3.0% leverage ratio and still be well capitalized.

The second NPR, the Standardized Approach NPR, proposes changes to the current generalized risk-based capital requirements for determining risk-weighted assets that expands the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50%, and 100%) to a much larger number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories.

CIT expects to be subject to the Basel III and Standardized Approach NPRs. CIT does not meet the thresholds to be considered an advanced approach bank, however, and would not be subject to the Basel III NPR s supplementary leverage ratio or countercyclical capital buffer implemented during times of excessive credit growth. The Basel III NPR was initially to become effective on January 1, 2013, and the Standardized Approach NPR was to become effective January 1, 2015. In November 2012, the U.S. bank regulatory agencies announced that they were indefinitely suspending the effective date of the NPRs.

Management believes that, as of December 31, 2012, CIT and CIT Bank would meet all capital adequacy requirements under the Basel III and Standardized Approach NPRs on a fully phased-in basis if such requirements were then effective. As required by the Dodd-Frank Act, in June 2011, the FRB and the FDIC adopted regulations imposing a continuing floor of the Basel I-based capital requirements in cases where any changes in capital regulations resulting from Basel III otherwise would permit lower requirements.

There can be no guarantee that the Basel III and the Standardized Approach NPRs will be adopted in their current form, what changes may be made before adoption, or when ultimate adoption will occur. Our compliance with requirements imposed as part of our stress tests, as discussed under *Stress Test and Capital Plan Requirements* below, may effectively require our compliance with the standards of Basel III and the NPRs, or with some higher capital standard, sooner than would otherwise be required.

Stress Test and Capital Plan Requirements

In October 2012, the FRB issued final regulations detailing stress test requirements for BHCs, savings and loan companies and state member banks with total consolidated assets greater than $10 billion.

With assets at December 31, 2012 of $44.0 billion, beginning this year CIT will be required to conduct annual stress tests using scenarios provided by the FRB, with final submission in March 2014. A stress test is defined as processes to assess the potential impact of scenarios on the consolidated earnings, losses, and capital of a company over a planning horizon, taking into account the company s current condition, risks, exposures, strategies, and activities. Beginning in 2013, CIT will conduct annual stress tests in the fall for a 9 quarter planning horizon and using the FRB scenarios issued prior to November 15th of each year. CIT must submit its annual stress test results to the FRB by March 31st of each year. Beginning with the 2014 stress test, CIT will be required to publicly disclose its stress test results in a forum easily accessible to the public, such as CIT s website.

Similarly, the FDIC published regulations requiring annual stress tests for FDIC-insured state nonmember banks and FDIC-insured state-chartered savings organizations with total consolidated assets of more than $10 billion[1]. CIT Bank is an FDIC-insured state nonmember bank with total assets of $12.2 billion as of December 31, 2012. CIT Bank exceeded $10 billion in assets at June 30, 2012 and will be required to conduct its first annual stress test using scenarios provided by the FDIC in the fall of 2013. Annual stress test results must be submitted before March 31st to the FDIC and the FRB and publicly disclosed, starting with

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(1) *Total consolidated assets are determined as the average reported total assets in the Call Report over the most recent four quarters.*

the 2014 stress test, between June 15th and June 30th of the following year.

Should our total consolidated assets equal or exceed $50 billion[2], CIT would be required to submit a capital plan annually to the FRB under the Capital Plan rules finalized in November 2011 as well as updated instructions and guidance published annually. While CIT is not currently subject to the Capital Plan rule, the FRB has the authority to require any bank holding company to submit annual capital plans based on the institution s size, level of complexity, risk profile, scope of operations, or financial condition.

Furthermore, CIT would also be subject to stress test requirements for covered companies (subpart G of the FRB s Regulation YY). Annually, CIT would be required to complete and submit a Supervisory stress test with the FRB s economic scenarios, as part of its capital plan, by January 5th. Summary stress test results for the severely adverse scenario would be publicly disclosed between March 15th and March 31st. Furthermore, CIT would also be required to run annual Company-run mid-cycle stress tests with company-developed economic scenarios for submission to the FRB by July 5th. Public disclosure of the summary stress test results for the bank holding company s severely adverse scenario would be made between September 15th and September 30th.

In January 2013, CIT submitted a capital plan to the FRBNY constructed in the spirit of a Capital Plan Review (CapPR) on a voluntary basis, which included a request for a modest return of capital. The capital plan and request considered the results of stress tests which were established in line with the supervisory guidance for stress testing and the FRB s supervisory economic scenarios for the 2013 capital plan assessments.

Liquidity Requirements

Historically, regulation and monitoring of bank and BHC liquidity has been addressed as a supervisory matter, without required formulaic measures. The Basel III final framework requires banks and BHCs to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward will be required by regulation. One test, referred to as the liquidity coverage ratio (LCR), is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity s expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other, referred to as the net stable funding ratio (NSFR), is designed to promote more medium-and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements may create an incentive for banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source. The Basel III liquidity framework contemplates that the LCR will be subject to an observation period continuing through mid-2013 and, subject to any revisions resulting from the analyses conducted and data collected during the observation period, begin a phased implementation process starting on January 1, 2015 that is expected to complete by January 1, 2019. It also contemplates that the NSFR will be subject to an observation period through mid-2016 and, subject to any revisions resulting from the analyses conducted and data collected during the observation period, implemented as a minimum standard by January 1, 2018. The federal banking agencies have not proposed rules implementing the final liquidity framework of Basel III and have not determined to what extent they will apply to U.S. banks that are not large, internationally active banks.

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), among other things, establishes five capital categories for FDIC-insured banks: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. A depository institution is deemed to be well capitalized, the highest category, if it has a total capital ratio of 10% or greater, a Tier 1 capital ratio of 6% or greater and a Tier 1 leverage ratio of 5% or greater and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure. CIT Bank s capital ratios were all in excess of minimum guidelines for well capitalized at December 31, 2012 and 2011. Neither CIT nor CIT Bank is subject to any order or written agreement regarding any capital requirements, but CIT has committed to its principal regulator to maintain a Total Capital ratio above the minimum requirement, as described above under *Capital Requirements* *General Risk-Based Capital Requirements* .

FDICIA requires the applicable federal regulatory authorities to implement systems for prompt corrective action for insured depository institutions that do not meet minimum requirements. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions as the capital category of an institution declines. Undercapitalized, significantly undercapitalized and critically undercapitalized depository institutions are required to submit a capital restoration plan to their primary federal regulator. Although prompt corrective action regulations apply only to depository institutions and not to BHCs, the holding company must guarantee any such capital restoration plan in certain circumstances. The liability of the parent holding company under any such guarantee is limited to the lesser of five percent of the bank s assets at the time it became undercapitalized or the amount needed to comply. The parent holding company might also be liable for civil money damages for failure to fulfill that guarantee. In the event of the bankruptcy of the parent holding company, such guarantee would take priority over the parent s general unsecured creditors.

Regulators take into consideration both risk-based capital ratios and other factors that can affect a bank s financial condition, including (a) concentrations of credit risk, (b) interest rate risk, and (c) risks from non-traditional activities, along with an institution s ability to manage those risks, when determining capital adequacy. This evaluation is made during the institution s safety and soundness examination. An institution may be downgraded to, or deemed to be in, a capital category that is lower than is indicated by its capital ratios if it is determined to be in an unsafe

(2) *Total consolidated assets are determined as the average reported total assets in the FR Y-9C over the most recent four quarters.*

or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters.

Heightened Prudential Requirements for Large Bank Holding Companies

The Dodd-Frank Act imposes heightened prudential requirements on, among others, BHCs with at least $50 billion in total consolidated assets, based on the average of total consolidated assets for the last four quarters, and requires the FRB to establish prudential standards for those large BHCs that are more stringent than those applicable to other BHCs. In December 2011, the FRB issued for public comment a notice of proposed rulemaking establishing enhanced prudential standards responsive to these provisions for risk-based capital requirements and leverage limits, liquidity requirements, risk-management requirements, stress testing, concentration limits, and a debt-to-equity limit for certain companies that the Financial Stability Oversight Council (FSOC) has determined pose a grave threat to financial stability. To date, only the regulations with regard to stress tests as discussed in *Stress Test and Capital Plan Requirements* above have been finalized. The FRB has discretionary authority to establish additional prudential standards, on its own or at the FSOC s recommendation, regarding contingent capital, enhanced public disclosures, short-term debt limits, and otherwise as it deems appropriate.

Most of the proposed rules will not apply to CIT for so long as its total consolidated assets remain below $50 billion. However, if CIT s total consolidated assets are $50 billion or more, these rules will apply. Two aspects of the proposed rules requirements for annual stress testing of capital under one base and two stress scenarios and certain corporate governance provisions requiring, among other things, that each BHC establish a risk committee of its board of directors with a risk management expert as one of its members apply to BHCs with total consolidated assets of $10 billion or more, including CIT.

Acquisitions

Federal and state laws impose notice and approval requirements for mergers and acquisitions involving depository institutions or BHCs. The BHC Act requires the prior approval of the FRB for the direct or indirect acquisition by a BHC of more than 5% of any class of voting shares or all or substantially all of the assets of a bank or the merger or consolidation of any BHC with another BHC. In reviewing bank acquisition and merger applications, the bank regulatory authorities will consider, among other things, the competitive effect of the transaction, financial and managerial issues including the capital position of the combined organization, convenience and needs factors, including the applicant s record under the Community Reinvestment Act of 1977 (CRA), the effectiveness of the subject organizations in combating money laundering activities and the transaction s effect on the stability of the U.S. banking and financial systems. In addition, other acquisitions by CIT may be subject to formal or informal notice and approval by the FRB or other regulatory authorities.

Dividends

CIT is a legal entity separate and distinct from CIT Bank and CIT s other subsidiaries. CIT provides a significant amount of funding to its subsidiaries, which is generally recorded as intercompany loans or equity. Most of CIT s cash flow is comprised of interest on intercompany loans to its subsidiaries and dividends from its subsidiaries.

Under the terms of the Written Agreement, CIT cannot declare or pay dividends on common stock without the prior written consent of the FRBNY and the Director of the Division of Banking Supervision of the FRB.

The ability of CIT to pay dividends on common stock may be affected by, among other things, various capital requirements, particularly the capital and non-capital standards established for depository institutions under FDICIA, which may limit the ability of CIT Bank to pay dividends to CIT. The right of CIT, its stockholders, and its creditors to participate in any distribution of the assets or earnings of its subsidiaries is further subject to prior claims of creditors of CIT Bank and CIT s other subsidiaries.

Utah state law imposes limitations on the payment of dividends by CIT Bank. A Utah state bank may declare a dividend out of the net profits of the bank after providing for all expenses, losses, interest, and taxes accrued or due from the bank. Furthermore, before declaring any dividend, a Utah bank must provide for not less than 10% of the net profits of the bank for the period covered by the dividend to be carried to a surplus fund until the surplus is equal to the bank s capital. Utah law may also impose additional restrictions on the payment of dividends if CIT Bank sustains losses in excess of its reserves for loan losses and undivided profits.

It is the policy of the FRB that a BHC generally only pay dividends on common stock out of net income available to common shareholders over the past year; only if the prospective rate of earnings retention appears consistent with capital needs, asset quality, and overall financial condition; and only if the BHC is not in danger of failing to meet its minimum regulatory capital adequacy ratios. In the current financial and economic environment, the FRB indicated that BHCs should not maintain high dividend pay-out ratios unless both asset quality and capital are very strong. A BHC should not maintain a dividend level that places undue pressure on the capital of bank subsidiaries, or that may undermine the BHC s ability to serve as a source of strength.

We anticipate that our capital ratios reflected in the stress test calculations required of us and the voluntary capital plan that we submitted as described under *Stress Test and Capital Requirements* , above, will be an important factor considered by the FRB in evaluating whether our proposed return of capital may be an unsafe or unsound practice. Additionally, should our total consolidated assets equal or exceed $50 billion, we would likely also be limited to paying dividends and repurchasing stock only in accordance with our annual capital plan submitted to the FRB under the Capital Plan rules. FRB guidance in the CapPR 2013 Summary Instructions and Guidance provide that capital plans contemplating dividend payout ratios exceeding 30% of projected after-tax net income will receive particularly close scrutiny.

Source of Strength Doctrine and Support for Subsidiary Banks

FRB policy and federal statute require BHCs such as CIT to serve as a source of strength to subsidiary banks and to commit capital and other financial resources. This support may be required at times when CIT may not be able to provide such support without adversely affecting its ability to meet other obligations. If CIT is unable to provide such support, the FRB could instead require

the divestiture of CIT Bank and impose operating restrictions pending the divestiture. Any capital loans by a BHC to any of its subsidiary banks are subordinate in right of payment to depositors and to certain other indebtedness of the subsidiary bank. If a BHC commits to a federal bank regulator that it will maintain the capital of its bank subsidiary, whether in response to the FRB s invoking its source of strength authority or in response to other regulatory measures, that commitment will be assumed by the bankruptcy trustee and the bank will be entitled to priority payment in respect of that commitment.

Enforcement Powers of Federal Banking Agencies

The FRB and other U.S. banking agencies have broad enforcement powers with respect to an insured depository institution and its holding company, including the power to impose cease and desist orders, substantial fines and other civil penalties, terminate deposit insurance, and appoint a conservator or receiver. Failure to comply with applicable laws or regulations could subject CIT or CIT Bank, as well as their officers and directors, to administrative sanctions and potentially substantial civil and criminal penalties.

Resolution Planning

As required by the Dodd-Frank Act, the FRB and FDIC have jointly issued a final rule that requires certain organizations, including BHCs with consolidated assets of $50 billion or more, to report periodically to regulators a resolution plan for their rapid and orderly resolution in the event of material financial distress or failure. Such a resolution plan must, among other things, ensure that its depository institution subsidiaries are adequately protected from risks arising from its other subsidiaries. The final rule sets specific standards for the resolution plans, including requiring a detailed resolution strategy, a description of the range of specific actions the company proposes to take in resolution, and an analysis of the company s organizational structure, material entities, interconnections and interdependencies, and management information systems, among other elements. If CIT s total consolidated assets increase to $50 billion or more, it would become subject to this requirement.

Orderly Liquidation Authority

The Dodd-Frank Act created the Orderly Liquidation Authority (OLA), a resolution regime for systemically important non-bank financial companies, including BHCs and their non-bank affiliates, under which the FDIC may be appointed receiver to liquidate such a company upon a determination by the Secretary of the U.S. Department of the Treasury (Treasury), after consultation with the President, with support by a supermajority recommendation from the FRB and, depending on the type of entity, the approval of the director of the Federal Insurance Office, a supermajority vote of the SEC, or a supermajority vote of the FDIC, that the company is in danger of default; that such default presents a systemic risk to U.S. financial stability and that the company should be subject to the OLA process. This resolution authority is similar to the FDIC resolution model for depository institutions, with certain modifications to reflect differences between depository institutions and non-bank financial companies and to reduce disparities between the treatment of creditors claims under the U.S. Bankruptcy Code and in an orderly liquidation authority proceeding compared to those that would exist under the resolution model for insured depository institutions.

An Orderly Liquidation Fund will fund OLA liquidation proceedings through borrowings from the Treasury and risk-based assessments made, first, on entities that received more in the resolution than they would have received in liquidation to the extent of such excess, and second, if necessary, on BHCs with total consolidated assets of $50 billion or more; any non-bank financial company supervised by the FRB; and certain other financial companies with total consolidated assets of $50 billion or more. If an orderly liquidation is triggered, CIT, if its total consolidated assets increase to $50 billion or more, could face assessments for the Orderly Liquidation Fund. We do not yet have an indication of the level of such assessments. Furthermore, were CIT to become subject to the OLA, the regime may also require changes to CIT s structure, organization and funding pursuant to the guidelines described above.

FDIC Deposit Insurance

Deposits of CIT Bank are insured by the FDIC Deposit Insurance Fund (DIF) up to applicable limits and are subject to premium assessments.

The current assessment system applies different methods to small institutions with assets of less than $10 billion, which are classified as small institutions, and large institutions with assets of greater than $10 billion for more than four consecutive quarters. CIT Bank is an FDIC-insured state nonmember bank with total assets of $12.2 billion as of December 31, 2012. CIT Bank exceeded $10 billion in assets at June 30, 2012, and has maintained total assets in excess of $10 billion for three sequential quarters. If at March 31, 2013 CIT Bank has more than $10 billion in assets, it would be considered a large institution.

Small institutions are broken down into four risk categories according to their capitalization levels and supervisory evaluations. Small institutions that are well-capitalized and are assigned to the highest supervisory group (those determined to be financially sound institutions with only a few minor weaknesses) are assigned to Risk Category I, for which initial assessment rates are based on a combination of financial ratios and supervisory ratings (its CAMELS ratings). Small institutions that are not well-capitalized or are assigned to lower supervisory groups are assigned to Risk Categories II through IV, each of which has an associated initial assessment rate. The initial base assessment rates for Risk Category I range from 5-9 basis points on an annualized basis (basis points representing cents per $100 of assessable assets). The initial base assessment rates for Risk Categories II through IV are set at 14, 23 and 35 basis points on an annualized basis, respectively. After the effect of potential base rate adjustments described below (but not including the depository institution debt adjustment), the total base assessment rate can range from 2.5 to 9 basis points on an annualized basis for Risk Category I and from 9 to 24, 18 to 33 and 30 to 45 basis points on an annualized basis for Risk Categories II through IV, respectively.

For larger institutions, the FDIC uses a two scorecard system, one for most large institutions that have had more than $10 billion in assets as of December 31, 2006 (unless the institution subsequently reported assets of less than $10 billion for four consecutive quarters) or have had more than $10 billion in total assets for at least four consecutive quarters since December 31, 2006 and another for (i) highly complex institutions that have had over $50 billion in assets for at least four consecutive quarters and are directly or indirectly controlled by a U.S. parent with over $500 billion in assets for four consecutive quarters and (ii) certain processing banks and trust companies with total fiduciary assets of $500 billion or more for at least four consecutive quarters. Each scorecard has a performance score and a loss-severity score that is combined to produce a total score, which is translated into an initial assessment rate. In calculating these scores, the FDIC utilizes a bank s capital level and CAMELS ratings and certain financial measures designed to assess an institution s ability to withstand asset-related stress and funding-related stress. The FDIC also has the ability to make discretionary adjustments to the total score, up or down, by a maximum of 15 basis points, based upon significant risk factors that are not adequately captured in the scorecard. The total score translates to an initial base assessment rate on a non-linear, sharply increasing scale. For large institutions, the initial base assessment rate ranges from 5 to 35 basis points on an annualized basis. After the effect of potential base rate adjustments described below (but not including the depository institution debt adjustment), the total base assessment rate could range from 2.5 to 45 basis points on an annualized basis.

The potential adjustments to an institution s initial base assessment rate include (i) potential decrease of up to 5 basis points for certain long-term unsecured debt (unsecured debt adjustment) and, (ii) except for well capitalized institutions with a CAMELS rating of 1 or 2, a potential increase of up to 10 basis points for brokered deposits in excess of 10% of domestic deposits (brokered deposit adjustment). As the DIF reserve ratio grows, the rate schedule will be adjusted downward. Additionally, an institution must pay an additional premium (the depository institution debt adjustment) equal to 50 basis points on every dollar (above 3% of an institution s Tier 1 capital) of long-term, unsecured debt held that was issued by another insured depository institution (excluding debt guaranteed under the Temporary Liquidity Guarantee Program).

Under the Federal Deposit Insurance Act (FDIA), the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Transactions with Affiliates

Transactions between CIT Bank and its subsidiaries, on the one hand, and CIT and its other subsidiaries and affiliates, on the other hand, are regulated by the FRB and the FDIC pursuant to Sections 23A and 23B of the Federal Reserve Act. These regulations limit the types and amounts of transactions (including loans due and credit extensions from CIT Bank or its subsidiaries to CIT and its other subsidiaries and affiliates) as well as restrict certain other transactions (such as the purchase of existing loans or other assets by CIT Bank or its subsidiaries from CIT and its other subsidiaries and affiliates) that may otherwise take place and generally require those transactions to be on an arms-length basis and, in the case of extensions of credit, be secured by specified amounts and types of collateral. These regulations generally do not apply to transactions between CIT Bank and its subsidiaries.

All transactions subject to Sections 23A and 23B between CIT Bank and its affiliates are done on an arms-length basis. In addition, during 2012, approximately $280 million in loans and cash was transferred to CIT Bank and its subsidiaries from CIT as equity contributions in support of capital agreements related to student loans purchased from affiliates under a 23A and 23B exemption granted by the FRB. Furthermore, to ensure ongoing compliance with Sections 23A and 23B, CIT Bank maintains sufficient collateral in the form of cash deposits and pledged loans to cover any extensions of credit to affiliates.

The Dodd-Frank Act significantly expanded the coverage and scope of the limitations on affiliate transactions within a banking organization and changes the procedure for seeking exemptions from these restrictions. For example, the Dodd-Frank Act expanded the definition of a covered transaction to include derivatives transactions and securities lending transactions with a non-bank affiliate under which a bank (or its subsidiary) has credit exposure (with the term credit exposure to be defined by the FRB under its existing rulemaking authority). Collateral requirements will apply to such transactions as well as to certain repurchase and reverse repurchase agreements.

Safety and Soundness Standards

FDICIA requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation, compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the prompt corrective action provisions of the FDIA. See *Prompt Corrective Action* above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Insolvency of an Insured Depository Institution

If the FDIC is appointed the conservator or receiver of an insured depository institution, upon its insolvency or in certain other events, the FDIC has the power:

- to transfer any of the depository institution s assets and liabilities to a new obligor without the approval of the depository institution s creditors;

- to enforce the terms of the depository institution s contracts pursuant to their terms; or

- to repudiate or disaffirm any contract or lease to which the depository institution is a party, the performance of which is determined by the FDIC to be burdensome and the disaffirmance or repudiation of which is determined by the FDIC to promote the orderly administration of the depository institution.

In addition, under federal law, the claims of holders of deposit liabilities, including the claims of the FDIC as the guarantor of insured depositors, and certain claims for administrative expenses against an insured depository institution would be afforded priority over other general unsecured claims against such an institution, including claims of debt holders of the institution, in the liquidation or other resolution of such an institution by any receiver. As a result, whether or not the FDIC ever seeks to repudiate any debt obligations of CIT Bank, the debt holders would be treated differently from, and could receive, if anything, substantially less than CIT Bank s depositors.

Consumer Financial Protection Bureau Supervision

The Consumer Financial Protection Bureau (CFPB) is authorized to interpret and administer federal consumer financial laws and to examine and enforce compliance with those laws by depository institutions with assets over $10 billion for each of the prior four quarters. CIT Bank reached $10 billion in assets at June 30, 2012 and therefore will be subject to the direct supervision of the CFPB beginning in the third quarter of 2013 with respect to examinations and enforcement of compliance with applicable federal consumer financial laws.

Community Reinvestment Act (CRA)

The CRA requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low-and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. Furthermore, banking regulators take into account CRA ratings when considering approval of a proposed transaction. CIT Bank received a rating of Satisfactory on its most recent CRA examination by the FDIC.

Incentive Compensation

The Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities, such as CIT and CIT Bank, having at least $1 billion in total assets that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The agencies proposed such regulations in April 2011, but these regulations have not yet been finalized. If the regulations are adopted in the form initially proposed, they will impose limitations on the manner in which CIT may structure compensation for its executives.

In June 2010, the FRB and the FDIC issued comprehensive final guidance intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization s board of directors. These three principles are incorporated into the proposed joint compensation regulations under the Dodd-Frank Act discussed above.

Anti-Money Laundering (AML) and Economic Sanctions

In the U.S., the Bank Secrecy Act, as amended by the USA PATRIOT Act of 2001, imposes significant obligations on financial institutions, including banks, to detect and deter money laundering and terrorist financing, including requirements to implement AML programs, verify the identity of customers that maintain accounts, file currency transaction reports, and monitor and report suspicious activity to appropriate law enforcement or regulatory authorities. Anti-money laundering laws outside the United States contain similar requirements to implement AML programs. The Company has implemented policies, procedures, and internal controls that are designed to comply with all applicable AML laws and regulations. The Company has also implemented policies, procedures, and internal controls that are designed to comply with the regulations and economic sanctions programs administered by the U.S. Treasury s Office of Foreign Assets Control (OFAC), which administers and enforces economic and trade sanctions against targeted foreign countries, and regimes, terrorists, international narcotics traffickers, those engaged in activities related to the proliferation of weapons of mass destruction, and other threats to the national security, foreign policy, or economy of the United States, as well as sanctions based on United Nations and other international mandates.

Anti-corruption

The Company is subject to the Foreign Corrupt Practices Act (FCPA), which prohibits offering, promising, giving, or authorizing others to give anything of value, either directly or indirectly, to a non-U.S. government official in order to influence official action or otherwise gain an unfair business advantage, such as to obtain or retain business. The Company is also subject to applicable anti-corruption laws in the jurisdictions in which it operates, such as the U.K. Bribery Act, which became effective on July 1, 2011 and which generally prohibits commercial bribery, the receipt of a bribe, and the failure to prevent bribery by an

associated person, in addition to prohibiting improper payments to foreign government officials. The Company has implemented policies, procedures, and internal controls that are designed to comply with such laws, rules, and regulations.

Protection of Customer and Client Information

Certain aspects of the Company s business are subject to legal requirements concerning the use and protection of customer information, including those adopted pursuant to the Gramm-Leach-Bliley Act and the Fair and Accurate Credit Transactions Act of 2003 in the U.S., the E.U. Data Protection Directive, and various laws in Asia and Latin America. In the U.S., the Company is required periodically to notify its customers and clients of its policy on sharing nonpublic customer or client information with its affiliates or with third party non-affiliates, and, in some circumstances, allow its customers and clients to prevent disclosure of certain personal information to affiliates and third party non-affiliates. In many foreign jurisdictions, the Company is also restricted from sharing customer or client information with third party non-affiliates.

Other Regulation

In addition to U.S. banking regulation, our operations are subject to supervision and regulation by other federal, state, and various foreign governmental authorities. Additionally, our operations may be subject to various laws and judicial and administrative decisions. This oversight may serve to:

- regulate credit granting activities, including establishing licensing requirements, if any, in various jurisdictions;

- establish maximum interest rates, finance charges and other charges;
- regulate customers insurance coverages;
- require disclosures to customers;
- govern secured transactions;
- set collection, foreclosure, repossession and claims handling procedures and other trade practices;
- prohibit discrimination in the extension of credit and administration of loans; and
- regulate the use and reporting of information related to a borrower s credit experience and other data collection.

Changes to laws of states and countries in which we do business could affect the operating environment in substantial and unpredictable ways. We cannot accurately predict whether such changes will occur or, if they occur, the ultimate effect they would have upon our financial condition or results of operations.

WHERE YOU CAN FIND MORE INFORMATION

A copy of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as well as our Proxy Statement, may be read and copied at the SEC s Public Reference Room at 100 F Street, NE, Washington D.C. 20549. Information on the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at http://www.sec.gov, from which interested parties can electronically access the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as well as our Proxy Statement.

The Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as well as our Proxy Statement, are available free of charge on the Company s Internet site at http://www.cit.com as soon as reasonably practicable after such material is electronically filed with the SEC. Copies of our Corporate Governance Guidelines, the Charters of the Audit Committee, the Compensation Committee, the Nominating and Governance Committee, and the Risk Management Committee, and our Code of Business Conduct are available, free of charge, on our internet site at www.cit.com/investor, and printed copies are available by contacting Investor Relations, 1 CIT Drive, Livingston, NJ 07039 or by telephone at (973) 740-5000.

GLOSSARY OF TERMS

Accretable / Non-accretable fresh start accounting adjustments reflect components of the fair value adjustments to assets and liabilities. Accretable adjustments flow through the related line items on the statement of operations (interest income, interest expense, non-interest income and depreciation expense) on a regular basis over the remaining life of the asset or liability. These primarily relate to interest adjustments on loans and leases, as well as debt. Non-accretable adjustments, for instance credit related write-downs on loans, become adjustments to the basis of the asset and flow back through the statement of operations only upon the occurrence of certain events, such as repayment or sale.

Average Earning Assets (AEA) is computed using month end balances and is the average of finance receivables (defined below), operating lease equipment, and financing and leasing assets held for sale, less the credit balances of factoring clients. We use this average for certain key profitability ratios, including return on AEA and Net Finance Revenue as a percentage of AEA.

Average Finance Receivables (AFR) is computed using month end balances and is the average of finance receivables (defined below), which includes loans and capital lease receivables. We use this average to measure the rate of net charge-offs for the period.

Average Operating Leases (AOL) is computed using month end balances and is the average of operating lease equipment. We use this average to measure the rate of return on our operating lease portfolio for the period.

Delinquent loan categorization occurs when payment is not received when contractually due. Delinquent loan trends are used as a gauge of potential portfolio degradation or improvement.

Derivative Contract is a contract whose value is derived from a specified asset or an index, such as an interest rate or a foreign currency exchange rate. As the value of that asset or index changes, so does the value of the derivative contract. We use derivatives to reduce interest rate, foreign currency or credit risks. The derivative contracts we use may include interest-rate swaps, interest rate caps, cross-currency swaps, foreign exchange forward contracts, and credit default swaps.

Economic Value of Equity (EVE) measures the net economic value of equity by assessing the market value of assets, liabilities and derivatives.

Finance Receivables include loans, capital lease receivables and factoring receivables. In certain instances, we use the term Loans synonymously, as presented on the balance sheet.

Financing and Leasing Assets include finance receivables, operating lease equipment, and assets held for sale.

Fresh Start Accounting (FSA) was adopted upon emergence from bankruptcy. FSA recognizes that CIT has a new enterprise value following its emergence from bankruptcy and requires asset values to be remeasured using fair value in accordance with accounting requirements for business combinations. The excess of reorganization value over the fair value of tangible and intangible assets was recorded as goodwill. In addition, FSA also requires that all liabilities, other than deferred taxes, be stated at fair value. Deferred taxes were determined in conformity with accounting requirements for Income Taxes.

Interest income includes interest earned on finance receivables, cash balances and dividends on investments.

Lease capital is an agreement in which the party who owns the property (lessor), which is CIT as part of our finance business, permits another party (lessee), which is our customer, to use the property with substantially all of the economic benefits and risks of asset ownership passed to the lessee.

Lease operating is a lease in which CIT retains ownership of the asset, collects rental payments, recognizes depreciation on the asset, and retains the risks of ownership, including obsolescence.

Lower of Cost or Fair Value relates to the carrying value of an asset. The cost refers to the current book balance of certain assets, such as held for sale assets, and if that balance is higher than the fair value, an impairment charge is reflected in the current period statement of operations.

Net Finance Revenue (NFR) is a non-GAAP measurement and reflects Net Interest Revenue plus rental income on operating leases less depreciation on operating lease equipment, which is a direct cost of equipment ownership. When divided by AEA, the product is defined as Net Finance Margin. These are key measures in the evaluation of our business.

Net Interest Income Sensitivity (NII Sensitivity) measures the impact of hypothetical changes in interest rates on NFR.

Net Interest Revenue reflects interest and fees on finance receivables and interest/dividends on investments less interest expense on deposits and long term borrowings.

Net Operating Loss Carryforward / Carryback (NOL) is a tax concept, whereby tax losses in one year can be used to offset taxable income in other years. For example, a U.S. Federal NOL can first be carried-back and applied against taxable income recorded in the two preceding years with any remaining amount being carried-forward for the next twenty years to offset future taxable income. The rules pertaining to the number of years allowed for the carryback or carryforward of an NOL varies by jurisdiction.

New business volume Funded represents the initial cash outlay related to new transactions entered into during the period. The amount includes CIT s portion of a syndicated transaction, whether it acts as the agent or a participant, and in certain instances, it includes portfolio purchases from third parties. *Committed* represents the amount of funding CIT is committed to lend under the terms of an agreement. The amount reported is net of any syndicated amounts. The differentiation from funded volume is that commitment volume includes amounts that may be drawn down in the future.

Non-accrual Assets include finance receivables greater than $500,000 that are individually evaluated and determined to be impaired, as well as finance receivables less than $500,000 that are delinquent (generally for more than 90 days), unless it is both well secured and in the process of collection. Non-accrual assets also include finance receivables maintained on a cash basis because of deterioration in the financial position of the borrower.

Non-performing Assets include non-accrual assets (described above) and assets received in satisfaction of loans (repossessed assets).

Other Income includes gains on equipment sales, factoring commissions, and fee revenue from activities such as loan servicing and loan syndications. Also included are gains on loan sales and investment sales and, as a result of FSA, recoveries on pre-FSA loan charge-offs. Other income combined with rental income on operating leases is defined as Non-interest income.

Regulatory Credit Classifications used by CIT are as follows:

- *Pass* assets do not meet the criteria for classification in one of the other categories;

- *Special Mention* assets exhibit potential weaknesses that deserve management s close attention and if left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects;

Classified assets range from: 1) assets that exhibit a well defined weakness and are inadequately protected by the current sound worth and paying capacity of the borrower, and are characterized by the distinct possibility that some loss will be sustained if the deficiencies are not corrected to 2) assets with weaknesses that make collection or liquidation in full unlikely on the basis of current facts, conditions, and values. Assets in this classification can be accruing or on non-accrual depending on the evaluation of

these factors. Loans rated as substandard, doubtful and loss are considered classified loans. Classified loans plus special mention loans are considered criticized loans.

- *Substandard* assets are inadequately protected by the current sound worth and paying capacity of the borrower, and are characterized by the distinct possibility that some loss will be sustained if the deficiencies are not corrected;

- *Doubtful* assets have weaknesses that make collection or liquidation in full unlikely on the basis of current facts, conditions, and values and

- *Loss* assets are considered uncollectible and of little or no value and are generally charged off.

Residual Values represent the estimated value of equipment at the end of the lease term. For operating leases, it is the value to which the asset is depreciated at the end of its estimated
useful life.

Risk Weighted Assets (RWA) is the denominator to which Total Capital and Tier 1 Capital is compared to derive the respective risk based regulatory ratios. RWA is comprised of both on-balance sheet assets and certain off-balance sheet items (for example loan commitments, purchase commitments or derivative contracts), all of which are adjusted by certain risk-weightings as defined by the regulators, which are based upon, among other things, the relative credit risk of the counterparty.

Syndication and Sale of Receivables result from originating leases and receivables with the intent to sell a portion, or the entire balance, of these assets to other financial institutions. We earn and recognize fees and/or gains on sales, which are reflected in other income, for acting as arranger or agent in these transactions.

Tangible Metrics, including tangible capital, exclude goodwill and intangible assets. We use tangible metrics in measuring book value.

Tier 1 Capital and Tier 2 Capital are regulatory capital as defined in the capital adequacy guidelines issued by the Federal Reserve. Tier 1 Capital is total stockholders equity reduced by goodwill and intangibles and adjusted by elements of other comprehensive income and other items. Tier 2 Capital consists of, among other things, other preferred stock that does not qualify as Tier 1, mandatory convertible debt, limited amounts of subordinated debt, other qualifying term debt, and allowance for loan losses up to 1.25% of risk weighted assets.

Total Capital is the sum of Tier 1 and Tier 2 Capital, subject to certain adjustments, as applicable.

Total Net Revenue is a non-GAAP measurement and is the combination of NFR and other income. This amount excludes provision for credit losses from total revenue and is a measurement of our revenue growth.

Total Return Swap is a swap where one party agrees to pay the other the total return of a defined underlying asset (e.g., a loan), usually in return for receiving a stream of LIBOR-based cash flows. The total returns of the asset, including interest and any default shortfall, are passed through to the counterparty. The counterparty is therefore assuming the risks and rewards of the underlying asset.

Troubled Debt Restructuring occurs when a lender, for economic or legal reasons, grants a concession to the borrower related to the borrower s financial difficulties that it would not otherwise consider.

Variable Interest Entity (VIE) is a corporation, partnership, limited liability company, or any other legal structure used to conduct activities or hold assets. These entities: lack sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support from other parties; have equity owners who either do not have voting rights or lack the ability to make significant decisions affecting the entity s operations; and/or have equity owners that do not have an obligation to absorb the entity s losses or the right to receive the entity s returns.

Yield-related Fees are collected in connection with our assumption of underwriting risk in certain transactions in addition to interest income. We recognize yield-related fees, which include prepayment fees and certain origination fees, in interest income over the life of the lending transaction.

Item 1A. Risk Factors

RISK FACTORS

The operation of our business, and the continued economic uncertainty in the U.S. and other regions of the world involve various elements of risk and uncertainty. You should carefully consider the risks and uncertainties described below before making a decision whether to invest in the Company. This is a discussion of the risks that we believe are material to our business and does not include all risks, material or immaterial, that may possibly affect our business. Additional risks that are presently unknown to us or that we currently deem immaterial may also impact our business.

Risks Related to Our Strategy and Business Plan

We must continue refining and implementing our strategy and business plan, which is based upon assumptions and analyses developed by us, including with respect to capital and liquidity, business strategy, and operations. If our assumptions and analyses are incorrect, we may be unsuccessful in executing our strategy and business plan, which could have a material adverse effect on our business, financial condition and results of operations.

A number of strategic issues affect our business, including how we allocate our capital and liquidity, our business strategy, and the quality and efficiency of operations. Among the capital and liquidity issues, we must address how we will use our excess capital, and our funding model, including the amount, availability, and cost of secured and unsecured debt in the capital markets and bank deposits in a bank-centric model. See

Risks Related to Capital and Liquidity. Among the business strategy issues, we must continue to evaluate which platforms to operate within CIT Bank or at the holding company, the scope of our international operations, and whether to acquire any new business platforms, or to expand, contract, or sell any existing platforms, some of which may be material. Among operational issues, we must continuously originate new business, service our existing portfolio, and upgrade our policies, procedures, systems, and internal controls. There is no assurance that we will be able to implement our strategic decisions effectively, and it may be necessary to refine, supplement, or modify our business plan and strategy in significant ways. If we are unable to fully implement our business plan and strategy, it may have a material adverse effect on our business, results of operations and financial condition.

We developed our strategy and business plan based upon certain assumptions, analyses, and financial forecasts, including with respect to revenue growth, earnings, interest margins, expense levels, cash flow, credit losses, liquidity and financing sources, customer confidence, retention of key employees, and the overall strength and stability of general economic conditions. Financial forecasts are inherently subject to many uncertainties and are necessarily speculative, and it is likely that one or more of the assumptions and estimates that are the basis of these financial forecasts will not be accurate. Accordingly, our actual financial condition and results of operations may differ materially from what we have forecast. There can be no assurance that the results or developments contemplated by our strategy and business plan will occur or, if they do occur, that they will have the anticipated effects on us and our subsidiaries or our businesses or operations. If any such results or developments do not materialize as anticipated, it could materially adversely affect the successful execution of our strategy and business plan.

Risks Related to Capital and Liquidity

If the Company does not maintain sufficient capital to satisfy the FRBNY, the FDIC and the UDFI, there could be an adverse effect on the manner in which we do business, or we could become subject to various enforcement or regulatory actions.

We have committed to the FRBNY to maintain a total risk-based capital ratio of at least 13% for the bank holding company. Although our capital levels currently exceed the minimum levels committed to with the regulators, current and future losses may reduce our capital levels and we have no assurances that we will be able to maintain our regulatory capital at satisfactory levels based on the performance of our business. Failure to maintain the appropriate capital levels would adversely affect the Company s status as a bank holding company, have a material adverse effect on the Company s financial condition and results of operations, and subject the Company to a variety of enforcement actions, as well as certain restrictions on its business. In addition to the requirement to be well-capitalized, the Company and CIT Bank are subject to regulatory guidelines that involve qualitative judgments by regulators about the entities status as well-managed, about the safety and soundness of the entities operations, including their risk management, and about the entities compliance with obligations under the Community Reinvestment Act of 1977, and failure to meet any of those standards may have a material adverse effect on our business.

If we do not maintain sufficient regulatory capital, the FRBNY and the FDIC could take action to require the Company to divest its interest in CIT Bank or otherwise limit access to CIT Bank by the Company and its creditors. The FDIC, in the case of CIT Bank, and the FRBNY, in the case of the Company, could place restrictions on the ability of CIT Bank and the Company to take certain actions without the prior approval of the applicable regulators. If we are unable to implement our strategy and business plan, and access the credit markets to meet our capital and liquidity needs in the future, or if we otherwise suffer adverse effects on our liquidity and operating results, we may be subject to formal and informal enforcement actions by the FRBNY and the FDIC, we may be forced to divest CIT Bank, and/or CIT Bank may be placed in FDIC conservatorship or receivership or suffer other consequences. Such actions could impair our ability to successfully execute our strategy and business plan and have a material adverse effect on our business, results of operations, and financial condition.

Our liquidity and/or ability to issue debt in the capital markets will be affected by our capital structure and level of encumbered assets, the performance of our business, market conditions, credit ratings, and regulatory or contractual restrictions. Inadequate liquidity could materially adversely affect our future business operations. Also, if we are unable to generate sufficient cash flow from operations to satisfy our obligations as they come due, it would adversely affect our future business operations.

We believe that conducting a greater proportion of our business activities within CIT Bank will facilitate greater funding stability. CIT Bank has access to certain funding sources, such as insured deposits, that are not available to non-banking institutions. However, CIT Bank generally cannot fund any of CIT s businesses conducted outside the Bank and we will need to obtain funding for those businesses in the capital markets and through third-party bank borrowings. Access to the capital markets may be dependent upon our ratings from credit rating agencies, which currently are not investment grade.

There can be no assurance that we will be able to access the capital markets at attractive pricing and terms and at volumes that meet our expectations and needs, particularly during periods of market instability. If we are unable to do so, it would adversely affect our business, operating results and financial condition. Even if we successfully implement our strategy and business plan, obtain additional financing from third party sources to continue operations, and successfully operate our business, our liquidity may be inadequate to expand our business, upgrade our operations, or make necessary capital expenditures and we may be required to sell assets or engage in other capital generating actions over and above our normal financing activities or cut back or eliminate other programs that are important to the future success of our business. In addition, as part of our business, we enter into financial commitments and extend lines of credit, and our customers and counterparties might respond to any weakening of our liquidity position by requesting quicker payment, requiring additional collateral, or increasing draws on our outstanding commitments and lines of credit. If this were to happen, our need for cash would be intensified and it could have a material adverse effect on our business, financial condition, or results of operations.

If we are unable to maintain profitability, we may not be able to generate sufficient cash flow from operations in the future to allow us to service our debt, pay our other obligations as required and make necessary capital expenditures, in which case we may need to dispose of additional assets and/or minimize capital expenditures and/or try to raise additional financing. There is no assurance that any of these alternatives would be available to us, if at all, on satisfactory terms.

Our business may be adversely affected if we do not successfully expand our deposit-taking capabilities at CIT Bank.

There is no assurance that CIT Bank will become a reliable funding source as to either the amount of borrowings we might need or the cost of funding. This will depend in significant part on the ability of CIT Bank to attract deposits, which currently is limited by its lack of a branch network and its reliance upon brokered and online deposits, and on whether CIT Bank will be accepted by depositors and lenders as a reliable borrower. While CIT Bank plans to expand the retail online banking platform to diversify the types of deposits that it accepts, such expansion may require significant time and effort to implement. In addition, the acquisition of a retail branch network will be subject to regulatory approval, which may not be obtained. We are likely to face significant competition for deposits from stronger bank holding companies who are similarly seeking larger and more stable pools of funding. If CIT Bank is unable to expand and diversify its deposit-taking capability, it could have a material adverse effect on our business, results of operations, and financial condition.

Many of our regulated subsidiaries could be negatively affected by a significant decrease in regulatory capital ratios or performance of our business.

In addition to CIT Bank, we have a number of other regulated subsidiaries that may be affected by a significant decrease in our regulatory capital ratios or performance of our business. If such decreases occur, the regulators of our banking subsidiaries in the United Kingdom, Sweden, France and Brazil, as well as our Small Business Lending and insurance subsidiaries, may take action against such entities, including limiting or prohibiting transactions with CIT Group Inc. and/or seizing such entities.

Risks Related to Regulatory Obligations and Limitations

We are currently subject to the Written Agreement, which may adversely affect our business. In addition, our business may be adversely affected if we do not successfully implement our plan to transform our compliance, risk management, finance, treasury, operations, and other areas of our business to meet the standards of a bank holding company.

Under the terms of the Written Agreement, the Company provided the FRBNY with (i) a corporate governance plan, focusing on strengthening internal audit, risk management, and other control functions, (ii) a credit risk management plan, (iii) a written program to review and revise, as appropriate, its program for determining, documenting and recording the allowance for loan and lease losses, (iv) a capital plan for the Company and CIT Bank, (v) a liquidity plan, including meeting short term funding needs and longer term funding, and (vi) a business plan, and we update various of these plans on a periodic basis. The Written Agreement also prohibits the Company, without the prior approval of the FRBNY, from paying dividends, paying interest on subordinated debt, incurring or guaranteeing debt outside of the ordinary course of business, prepaying debt, or purchasing or redeeming the Company s stock. Under the Written Agreement, the Company must comply with certain procedures and restrictions on appointing or changing the responsibilities of any senior officer or director, the provision of indemnification to officers and directors, and the payment of severance to employees.

When we converted our business to a banking model, we identified areas that required improved policies and procedures to meet the regulatory requirements and standards for banks and bank holding companies, including but not limited to compliance, risk management, finance, treasury, and operations. During 2010, 2011 and 2012, we developed and implemented project plans to improve policies, procedures, and systems in the areas identified and we continue to make improvements on an ongoing basis.

The additional resources hired for internal audit, risk management, and other control functions, and the cost of implementing other measures to comply with the Written Agreement, have increased our expenses for the foreseeable future. If we do not comply with the terms of the Written Agreement, it could result in additional regulatory action and it could have a material adverse effect on our business. If we have not identified all of the required improvements, particularly in our control functions, or if we are unsuccessful in implementing the policies, procedures, and systems that have been identified, or if we do not implement the policies, procedures, and systems quickly enough, we may not be able to operate our business as efficiently as we need to. In addition, we could be subject to a variety of formal and informal enforcement actions that could result in the imposition of certain restrictions on our business, or preclude us from making acquisitions, and such actions could impair our ability to execute our business plan and have a material adverse effect on our business, results of operations, or financial condition.

Our business, financial condition and results of operations could be adversely affected by regulations to which we are subject as a bank holding company, by new regulations or by changes in other regulations or the application thereof.

The financial services industry, in general, is heavily regulated. We are subject to the comprehensive, consolidated supervision of the Federal Reserve, including risk-based and leverage capital requirements and information reporting requirements. In addition, CIT Bank is subject to supervision by the FDIC and UDFI, including risk-based capital requirements and information reporting requirements. This regulatory oversight is established to protect depositors, federal deposit insurance funds and the banking system as a whole, and is not intended to protect debt and equity security holders.

Proposals for legislation to further regulate, restrict, and tax certain financial services activities are continually being introduced in the United States Congress and in state legislatures. In 2010, the Dodd-Frank Act established additional regulatory bodies, including the FSOC and the CFPB, and included provisions affecting, among other things, (i) corporate governance and executive compensation of companies whose securities are registered with the SEC, (ii) FDIC insurance assessments based on asset levels rather than deposits, (iii) minimum capital levels for bank holding companies, (iv) derivatives activities, proprietary trading, and private investment funds offered by financial institutions, and (v) the regulation of large financial institutions. The agencies regulating the financial services industry periodically adopt changes to their regulations and are still finalizing regulations to implement various provisions of the Dodd-Frank Act. In recent years, regulators have increased significantly the level and scope of their supervision and regulation of the financial services industry. We are unable to predict the form or nature of any future changes to statutes or regulation, including the interpretation or implementation thereof. Such increased supervision and regulation could significantly affect our ability to conduct certain of our businesses in a cost-effective manner, or could restrict the type of activities in which we are permitted to engage, or subject us to stricter and more conservative capital, leverage, liquidity, and risk management standards. Any such action could have a substantial impact on us, significantly increase our costs, limit our growth opportunities, affect our strategies and business operations and increase our capital requirements, and could have an adverse effect on our business, financial condition and results of operations.

The financial services industry is also heavily regulated in many jurisdictions outside of the United States. We have subsidiaries in various countries that are licensed as banks, banking corporations, broker-dealers, and insurance companies, all of which are subject to regulation and examination by banking, securities, and insurance regulators in their home jurisdiction. In certain jurisdictions, including the United Kingdom, the local banking regulators expect the local regulated entity to maintain contingency plans to operate on a stand-alone basis in the event of a crisis. Given the evolving nature of regulations in many of these jurisdictions, it may be difficult for us to meet all of the regulatory requirements, establish operations and receive approvals. Our inability to remain in compliance with regulatory requirements in a particular jurisdiction could have a material adverse effect on our operations in that market and on our reputation generally.

We could be adversely affected by the actions and commercial soundness of other financial institutions.

CIT s ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. CIT has exposure to many different industries and counterparties, and it routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial institutions, or the financial services industry generally, have led, and may further lead, to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions could expose CIT to credit risk in the event of default of its counterparty or client. In addition, CIT s credit risk may be impacted when the collateral held by it cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due to CIT. There is no assurance that any such losses would not adversely affect, possibly materially in nature, CIT.

Risks Related to the Operation of Our Businesses

Revenue growth from new business initiatives and expense reductions from efficiency improvements may not be achieved.

As part of its ongoing business, CIT often enters into new business initiatives and has targeted certain expense reductions to be phased in during 2013. The revenues anticipated from the new business initiatives and the target expense reductions may not be achieved and may be subject to various risks inherent in CIT s business and operations. The new business initiatives may not be successful in the marketplace, due to lack of name recognition, lack of a record of prior performance, or otherwise, or may require higher expenditures than anticipated to generate new business volume. The expense initiatives may not reduce expenses as much as anticipated, due to delays in implementation, higher than expected or unanticipated costs to implement them, or for other reasons. If CIT is unable to achieve the anticipated revenue growth from its new business initiatives or the projected expense reductions from efficiency improvements, its results of operations and profitability may be negatively affected.

We may be adversely affected if we do not maintain adequate internal control over financial reporting, which could result in a material misstatement of the Company s annual or interim financial statements.

Management of CIT is responsible for establishing and maintaining adequate internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. If we fail to maintain adequate internal controls, we may be unable to (i) maintain records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, (iii) ensure that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Company, and (iv) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on the financial statements.

If we identify material weaknesses, or if material weaknesses exist that we fail to identify, our risk will be increased that a material misstatement to the annual or interim financial statements will not be prevented or detected on a timely basis. Any such potential material misstatement, if not prevented or detected, could have a material adverse effect on our business, results of operations, and financial condition.

Our allowance for loan losses may prove inadequate.

Our business depends on the creditworthiness of our customers and their ability to fulfill their obligations to us. We maintain a consolidated allowance for loan losses on finance receivables that reflects management s judgment of losses inherent in the portfolio. We regularly review our consolidated allowance for adequacy considering economic conditions and trends, collateral values, and credit quality indicators, including past charge-off experience and levels of past due loans, past due loan migration trends, and non-performing assets. Our credit losses were significantly more severe from 2007 to 2009 than in prior economic downturns, due to a significant decline in real estate values, an increase in the proportion of cash flow loans versus asset based loans in our corporate finance segment, the limited ability of borrowers to restructure their liabilities or their business, and reduced values of the collateral underlying the loans.

While our portfolio credit quality improved since mid-2010, the economic environment is dynamic, and our portfolio credit quality could decline in the future. Our allowance for loan losses may not keep pace with changes in the credit-worthiness of our customers or in collateral values. If the credit quality of our customer base declines, if the risk profile of a market, industry, or group of customers changes significantly, or if the markets for accounts receivable, equipment, real estate, or other collateral deteriorates significantly, our allowance for loan losses may prove inadequate, which could have a material adverse effect on our business, results of operations, and financial condition.

In addition to customer credit risk associated with loans and leases, we are exposed to other forms of credit risk, including counterparties to our derivative transactions, loan sales, syndications and equipment purchases. These counterparties include other financial institutions, manufacturers, and our customers. If our credit underwriting processes or credit risk judgments fail to adequately identify or assess such risks, or if the credit quality of our derivative counterparties, customers, manufacturers, or other parties with which we conduct business materially deteriorates, we may be exposed to credit risk related losses that may negatively impact our financial condition, results of operations or cash flows.

Uncertainties related to our business may result in the loss of or decreased business with customers.

Our business depends upon our customers believing that we will be able to provide them with funding on a timely basis through a wide range of products. Many of our customers rely upon our funding to provide them with the working capital necessary to operate their business or to fund capital improvements that allow them to maintain or expand their business. In many instances, these funding requirements are time sensitive. If our customers are uncertain as to our ability to continue to provide them with funding on a timely basis or to provide the same breadth and quality of products, we may be unable to attract new customers and we may experience lower business volume or a loss of business with our existing customers.

We may not be able to achieve the expected benefits from acquiring a business or assets or adequate consideration for disposing of a business or assets.

As part of our strategy and business plan, we may consider a number of measures designed to manage our business, the products and services we offer, and our asset levels, credit exposures, or liquidity position, including potential business or asset acquisitions or sales. There can be no assurance that we will be successful in completing all or any of these transactions.

If CIT engages in business acquisitions, it may be necessary to pay a premium over book and market values to complete the transaction, which may result in some dilution of our tangible book value and net income per common share. If CIT uses substantial cash or other liquid assets or incurs substantial debt to acquire a business or assets, we could become more susceptible to economic downturns and competitive pressures. Inherent uncertainties exist when integrating the operations of an acquired entity. CIT may not be able to fully achieve its strategic objectives and planned operating efficiencies in an acquisition. CIT may also be exposed to other risks inherent in an acquisition, including potential exposure to unknown or contingent liabilities, exposure to potential asset quality issues, potential disruption of our existing business and diversion of management s time and attention, possible loss of key employees or customers of the acquired business, potential risk that certain items were not accounted for properly by the seller in accordance with financial accounting and reporting standards. Failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our business, financial condition, and results of operations.

As a result of economic cycles and other factors, the value of certain asset classes may fluctuate and decline below their historic cost. If CIT is holding such businesses or asset classes, we may not recover our carrying value if we sell such businesses or assets. In addition, potential purchasers may be unwilling to pay an amount equal to the face value of a loan or lease if the purchaser is concerned about the quality of the Company s credit underwriting. There is no assurance that we will receive adequate consideration for any dispositions. These transactions, if completed, may reduce the size of our business and we may not be able to replace the volume associated with these businesses. As a result, our future disposition of assets could have a material adverse effect on our business, financial condition and results of operations.

We are restricted from paying dividends or repurchasing our common stock.

Under the terms of the Written Agreement, we are restricted from declaring dividends on our common stock or repurchasing our common stock without prior written approval of the FRBNY. We are not currently paying dividends on our common stock and have not repurchased any common stock since our emergence from bankruptcy. Even when the Written Agreement is

terminated, we may still require regulatory approval to pay dividends on our common stock or repurchase our common stock, and we cannot determine when, if ever, we will be permitted to do so. Although we recently submitted our 2013 capital plan to the Federal Reserve, which included a modest return of capital, we cannot determine whether the Federal Reserve will object to such capital return.

Uncertainties related to our business may create a distraction for employees and may otherwise materially adversely affect our ability to retain existing employees and/or attract new employees.

Our future results of operations will depend in part upon our ability to retain existing highly skilled and qualified employees and to attract new and retain qualified executive officers and management, financial, technical, marketing, sales, and support employees. Competition for qualified executive officers and employees is intense, and CIT cannot ensure success in attracting or retaining such individuals. If we fail to attract and retain qualified executive officers and employees, it could materially adversely affect our ability to compete and it could have a material adverse effect on our ability to successfully operate our business or to meet our operations, risk management, compliance, regulatory, funding and financial reporting requirements.

We may not be able to realize our entire investment in the equipment we lease to our customers.

The realization of equipment values (residual values) during the life and at the end of the term of a lease is an important element in the leasing business. At the inception of each lease, we record a residual value for the leased equipment based on our estimate of the future value of the equipment at the expected disposition date. Internal equipment management specialists, as well as external consultants, determine residual values.

If the market value of leased equipment decreases at a rate greater than we projected, whether due to rapid technological or economic obsolescence, unusual wear and tear on the equipment, excessive use of the equipment, recession or other adverse economic conditions, or other factors, it would adversely affect the current values or the residual values of such equipment.

Further, certain equipment residual values, including commercial aerospace residuals, are dependent on the manufacturers or vendors warranties, reputation, and other factors, including market liquidity. In addition, we may not realize the full market value of equipment if we are required to sell it to meet liquidity needs or for other reasons outside of the ordinary course of business. Consequently, there can be no assurance that we will realize our estimated residual values for equipment.

The degree of residual realization risk varies by transaction type. Capital leases bear the least risk because contractual payments cover approximately 90% of the equipment s cost at the inception of the lease. Operating leases have a higher degree of risk because a smaller percentage of the equipment s value is covered by contractual cash flows over the term of the lease. Leveraged leases bear the highest level of risk as third parties have a priority claim on equipment cash flows. A significant portion of our leasing portfolios are comprised of operating leases, and a small portion is comprised of leveraged leases, both of which increase our residual realization risk.

We are currently involved, and may from time to time in the future be involved, in a number of judicial, regulatory, and arbitration proceedings related to the conduct of our business, the results of which could have a material adverse effect on our business, financial condition, or results of operation.

We are currently involved, and from time to time in the future may be involved, in a number of judicial, regulatory, and arbitration proceedings relating to matters that arise in connection with the conduct of our business (collectively, Litigation). It is inherently difficult to predict the outcome of Litigation matters, particularly when such matters are in their early stages or where the claimants seek indeterminate damages. We cannot state with certainty what the eventual outcome of the pending Litigation will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines, or penalties related to each pending matter will be, if any. Although we have established reserves for certain matters, the actual results of resolving such matters may be substantially higher than the amounts reserved, or judgments may be rendered, or fines or penalties assessed in matters for which we have no reserves. Adverse judgments, fines or penalties in one or more Litigation matters could have a material adverse effect on our business, financial condition, or results of operation.

We and our subsidiaries are party to various financing arrangements, commercial contracts and other arrangements that under certain circumstances give, or in some cases may give, the counterparty the ability to exercise rights and remedies under such arrangements which, if exercised, may have material adverse consequences.

We and our subsidiaries are party to various financing arrangements, commercial contracts and other arrangements, such as securitization transactions, derivatives transactions, funding facilities, and agreements for the purchase or sale of assets, that give, or in some cases may give, the counterparty the ability to exercise rights and remedies upon the occurrence of certain events. Such events may include a material adverse effect or material adverse change (or similar event), a breach of representations or warranties, a failure to disclose material information, a breach of covenants, certain insolvency events, a default under certain specified other obligations, or a failure to comply with certain financial covenants. The counterparty could have the ability, depending on the arrangement, to, among other things, require early repayment of amounts owed by us or our subsidiaries and in some cases payment of penalty amounts, or require the repurchase of assets previously sold to the counterparty. Additionally, a default under financing arrangements or derivatives transactions that exceed a certain size threshold in the aggregate may also cause a cross-default under instruments governing our other financing arrangements or derivatives transactions. If the ability of any counterparty to exercise such rights and remedies is triggered and we are unsuccessful in avoiding or minimizing the adverse consequences discussed above, such consequences could have a material adverse effect on our business, results of operations, and financial condition.

For example, in 2008, we entered into a purchase agreement (the Purchase Agreement) to sell our home lending business, including the related residential mortgage loan portfolio and mortgage backed securities, to a company created by a private

equity fund for the purpose of entering into the Purchase Agreement (the Purchaser). Prior to the sale of our home lending business to the Purchaser, we periodically had securitized a portion of the residential mortgage loans that we originated, and we sold residential mortgage loans or residential mortgage backed securities to Government Sponsored Entities, monoline home lenders, and investors. Pursuant to the Purchase Agreement with the Purchaser, we made certain representations and warranties regarding the business and portfolio, nearly all of which have since expired. In addition, the Purchaser agreed to assume all repurchase obligations for residential mortgage loans under the securitization and loan sale agreements entered into prior to the Purchase Agreement and scheduled as part of the Purchase Agreement.

The Purchaser has not given any indication that it has been subject to significant repurchase obligations or that it does not intend to honor its agreement to assume such repurchase obligations. However, if the Purchaser is subject to repurchase obligations and is unable or unwilling to accept responsibility for such repurchase obligations, and particularly if the Purchaser does not have sufficient capital to address such repurchase obligations, then we may become subject to claims under such repurchase obligations. If we become responsible for such repurchase obligations to third parties, it may have a material adverse effect on our results of operations and financial condition.

Adverse or volatile market conditions could continue to negatively impact fees and other income.

A portion of our revenue base is generated through loan syndication fees and participation income, advisory fees, servicing fees, and other types of fee income, which are recorded in other income. In addition, we also generate significant fee income from our factoring business. These revenue streams are dependent on market conditions and the confidence of clients, customers, and syndication partners in our ability to perform our obligations, and, therefore, are more volatile than interest payments on loans and rentals on leased equipment. Current market conditions, including lower liquidity levels in the syndication market, have significantly reduced our syndication activity, and have resulted in significantly lower fee income. In addition, if our clients, customers, or syndication partners become concerned about our ability to meet our obligations on a transaction, it may become more difficult for us to originate new transactions, to syndicate transactions that we originate, or to participate in syndicated transactions originated by others, which could further negatively impact our fee income and have a material adverse effect on our business. If we are unable to sell or syndicate a transaction after it is originated, we will end up holding a larger portion of the transaction and assume greater underwriting risk than we originally intended, which could increase our capital and liquidity requirements to support our business or expose us to the risk of valuation allowances for assets held for sale. If the capital markets are disrupted or if we otherwise fail to produce increased fees and other income, it could adversely affect our financial condition and results of operations.

Investment in and revenues from our foreign operations are subject to various risks and requirements associated with transacting business in foreign countries.

An economic recession or downturn, increased competition, or business disruption associated with the political or regulatory environments in the international markets in which we operate could adversely affect us.

In addition, our foreign operations generally conduct business in foreign currencies, which subject us to foreign currency exchange rate fluctuations. These exposures, if not effectively hedged could have a material adverse effect on our investment in international operations and the level of international revenues that we generate from international financing and leasing transactions. Reported results from our operations in foreign countries may fluctuate from period to period due to exchange rate movements in relation to the U.S. dollar, particularly exchange rate movements in the Canadian dollar, which is our largest non-U.S. exposure.

Foreign countries have various compliance requirements for financial statement audits and tax filings, which are required in order to obtain and maintain licenses to transact business. If we are unable to properly complete and file our statutory audit reports or tax filings, regulators or tax authorities in the applicable jurisdiction may restrict our ability to do business.

Furthermore, our international operations could expose us to trade and economic sanctions or other restrictions imposed by the United States or other governments or organizations. The U.S. Department of Justice (DOJ) and other federal agencies and authorities have a broad range of civil and criminal penalties they may seek to impose against corporations and individuals for violations of trade sanctions laws, the Foreign Corrupt Practices Act (FCPA) and other federal statutes. Under trade sanctions laws, the government may seek to impose modifications to business practices, including cessation of business activities in sanctioned countries, and modifications to compliance programs, which may increase compliance costs, and may subject us to fines, penalties and other sanctions. If any of the risks described above materialize, it could adversely impact our operating results and financial condition.

These laws also prohibit improper payments or offers of payments to foreign governments and their officials and political parties for the purpose of obtaining or retaining business. We have operations, deal with government entities and have contracts in countries known to experience corruption. Our activities in these countries create the risk of unauthorized payments or offers of payments by one of our employees, consultants, sales agents, or associates that could be in violation of various laws, including the FCPA, even though these parties are not always subject to our control. Our existing safeguards and procedures may prove to be less than fully effective, and our employees, consultants, sales agents, or associates may engage in conduct for which we may be held responsible. Violations of the FCPA may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could negatively affect our business, operating results, and financial condition.

We may be adversely affected by significant changes in interest rates.

In addition to our equity capital, we rely on borrowed money from unsecured debt, secured debt, and deposits to fund our business. We derive the bulk of our income from net finance revenue, which is the difference between interest and rental income on our financing and leasing assets and interest expense on deposits and other borrowing and depreciation on our operating lease equipment. Prevailing economic conditions, the trade, fiscal, and monetary policies of the federal government and the policies of various regulatory agencies all affect market rates of interest and the availability and cost of credit, which in turn significantly affects our net finance revenue. Volatility in interest rates can also result in disintermediation, which is the flow of funds away from financial institutions into direct investments, such as federal government and corporate securities and other investment vehicles, which, because of the absence of federal insurance premiums and reserve requirements, generally pay higher rates of return than financial institutions.

Although interest rates are currently lower than usual, as interest rates rise and fall over time, any significant decrease in market interest rates may result in a change in net interest margins. A substantial portion of our loans and other financing products, as well as our deposits and other borrowings, bear interest at floating interest rates. If interest rates increase, monthly interest obligations owed by our customers to us will also increase, as will our own interest expense. Demand for our loans or other financing products may decrease as interest rates rise or if interest rates are expected to rise in the future. In addition, if prevailing interest rates increase, some of our customers may not be able to make the increased interest payments or refinance their balloon and bullet payment transactions, resulting in payment defaults and loan impairments. Conversely, if interest rates remain low, our interest expense may decrease, but our customers may refinance the loans they have with us at lower interest rates, or with others, leading to lower revenues. As interest rates rise and fall over time, any significant change in market rates may result in a decrease in net finance revenue, particularly if the interest rates we pay on our deposits and other borrowings and the interest rates we charge our customers do not change in unison, which may have a material adverse effect on our business, operating results, and financial condition.

We may be adversely affected by deterioration in economic conditions that is general in scope or affects specific industries, products or geographic areas.

Prolonged economic weakness, or other adverse economic or financial developments in the U.S. or global economies in general, or affecting specific industries, geographic locations and/or products, would likely impact credit quality as borrowers may fail to meet their debt payment obligations, particularly customers with highly leveraged loans. Adverse economic conditions have in the past and could in the future result in declines in collateral values, which also decreases our ability to fund against collateral. Accordingly, higher credit and collateral related losses could impact our financial position or operating results.

In addition, a downturn in certain industries may result in reduced demand for products that we finance in that industry or negatively impact collection and asset recovery efforts. Decreased demand for the products of various manufacturing customers due to recession may adversely affect their ability to repay their loans and leases with us. Similarly, a decrease in the level of airline passenger traffic or a decline in railroad shipping volumes due to reduced demand for certain raw materials or bulk products may adversely affect our aerospace or rail businesses, the value of our aircraft and rail assets, and the ability of our lessees to make lease payments.

We are also affected by the economic and other policies adopted by various governmental authorities in the U.S. and other jurisdictions in reaction to economic conditions. Changes in monetary policies of the Federal Reserve and non-U.S. central banking authorities directly impact our cost of funds for lending, capital raising, and investment activities, and may impact the value of financial instruments we hold. In addition, such changes may affect the credit quality of our customers. Changes in domestic and international monetary policies are beyond our control and difficult to predict.

Competition from both traditional competitors and new market entrants may adversely affect our market share, profitability, and returns.

Our markets are highly competitive and are characterized by competitive factors that vary based upon product and geographic region. We have a wide variety of competitors that include captive and independent finance companies, commercial banks and thrift institutions, industrial banks, community banks, leasing companies, hedge funds, insurance companies, mortgage companies, manufacturers and vendors.

We compete primarily on the basis of pricing, terms and structure. If we are unable to match our competitors terms, we could lose market share. Should we match competitors terms, it is possible that we could experience lower returns and/or increased losses.

We rely on our systems, employees, and certain third party vendors and service providers in conducting our operations, and certain failures, including internal or external fraud, operational errors, systems malfunctions, or cybersecurity incidents, could materially adversely affect our operations.

We are exposed to many types of operational risk, including the risk of fraud by employees and outsiders, clerical and recordkeeping errors, and computer or telecommunications systems malfunctions. Our businesses depend on our ability to process a large number of increasingly complex transactions. If any of our operational, accounting, or other data processing systems fail or have other significant shortcomings, we could be materially adversely affected. We are similarly dependent on our employees. We could be materially adversely affected if one of our employees causes a significant operational break-down or failure, either as a result of human error or intentional sabotage or fraudulent manipulation of our operations or systems. Third parties with which we do business, including vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including from breakdowns, failures, or capacity constraints of their own systems or employees. Any of these occurrences could diminish our ability to operate one or more of our businesses, or cause financial loss, potential liability to clients, inability to secure

insurance, reputational damage, or regulatory intervention, which could materially adversely affect us.

We may also be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control, which may include, for example, electrical or telecommunications outages, natural or man-made disasters, such as earthquakes, hurricanes, floods, or tornados, disease pandemics, or events arising from local or regional politics, including terrorist acts. Such disruptions may give rise to losses in service to clients and loss or liability to us. In addition, there is the risk that our controls and procedures as well as business continuity and data security systems prove to be inadequate. The computer systems and network systems we and others use could be vulnerable to unforeseen problems. These problems may arise in both our internally developed systems and the systems of third-party service providers. In addition, our computer systems and network infrastructure present security risks, and could be susceptible to hacking, computer viruses, or identity theft. Any such failure could affect our operations and could materially adversely affect our results of operations by requiring us to expend significant resources to correct the defect, as well as by exposing us to litigation or losses not covered by insurance. Although we have business continuity plans and other safeguards in place, our business operations may be adversely affected by significant and widespread disruption to our physical infrastructure or operating systems that support our businesses and customers.

Information security risks for large financial institutions such as CIT have generally increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties. Our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. Our businesses rely on our digital technologies, computer and email systems, software, and networks to conduct their operations. Although we believe we have robust information security procedures and controls, our technologies, systems, networks, and our customers devices may become the target of cyber attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of CIT s or our customers confidential, proprietary and other information, or otherwise disrupt CIT s or its customers or other third parties business operations.

Since January 1, 2010, we have not experienced any material information security breaches involving either proprietary or customer information. However, in two instances, data on consumer accounts serviced by a third party provider, including certain customers of the Company, were taken by insiders of the third party provider without authorization. In both instances, the suspects were identified, the data was recovered, and there was no damage to either the Company or the customers. Although to date neither the Company nor our customers has experienced any material losses relating to cyber attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, the prominent size and scale of CIT and its role in the financial services industry, our plans to continue to implement our online banking channel strategies and develop additional remote connectivity solutions to serve our customers when and how they want to be served, our expanded geographic footprint and international presence, the outsourcing of some of our business operations, and the continued uncertain global economic environment. As a result, cyber security and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for CIT. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

Disruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, or cyber attacks or security breaches of the networks, systems or devices that our customers use to access our products and services could result in customer attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially adversely affect our results of operations or financial condition.

Item 1B. Unresolved Staff Comments

There are no unresolved SEC staff comments.

Item 2. Properties

CIT operates in the United States, Canada, Europe, Latin America, and Asia. CIT occupies approximately 1.4 million square feet of office space, the majority of which is leased.

Item 3. Legal Proceedings

CIT is currently involved, and from time to time in the future may be involved, in a number of judicial, regulatory, and arbitration proceedings relating to matters that arise in connection with the conduct of its business (collectively, Litigation), certain of which Litigation matters are described in *Note 20 Contingencies* of *Item 8. Financial Statements and Supplementary Data*. In view of the inherent difficulty of predicting the outcome of Litigation matters, particularly when such matters are in their early stages or where the claimants seek indeterminate damages, CIT cannot state with confidence what the eventual outcome of the pending Litigation will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines, or penalties related to each pending matter may be, if any. In accordance with applicable accounting guidance, CIT establishes reserves for Litigation when those matters present loss contingencies as to which it is both probable that a loss will occur and the amount of such loss can be reasonably estimated. Based on currently available information, CIT believes that the results of Litigation that is currently pending, taken together, will not have a material adverse effect on the Company s financial condition, but may be material to the Company s operating results or cash flows for any particular period, depending in part on its operating results for that period. The actual results of resolving such matters may be substantially higher than the amounts reserved.

For more information about pending legal proceedings, including an estimate of certain reasonably possible losses in excess of reserved amounts, see *Note 20 Contingencies* of *Item 8. Financial Statements and Supplementary Data.*

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Market for Registrant s Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information CIT s common stock trades on the New York Stock Exchange (NYSE) under the symbol CIT.

The following tables set forth the high and low reported closing prices for CIT s common stock.

Common Stock

	2012		2011	
	High	**Low**	**High**	**Low**
First Quarter	$43.19	$34.84	$49.01	$41.82
Second Quarter	$41.60	$32.57	$44.33	$39.60
Third Quarter	$41.38	$34.20	$44.74	$30.27
Fourth Quarter	$40.81	$36.12	$36.60	$29.12

Holders of Common Stock As of February 11, 2013, there were 110,598 beneficial owners of common stock.

Dividends We have not declared nor paid any common stock dividends on the shares of common stock during 2011 and 2012.

Issuer Purchases of Equity Securities There were no purchases of equity securities made during 2012 and there are no repurchase plans or programs under which shares may be purchased.

Return of Capital We have requested from the Federal Reserve permission for a modest return of capital during 2013.

Securities Authorized for Issuance Under Equity Compensation Plans Our equity compensation plans in effect following the Effective Date were approved by the Court and do not require shareholder approval. Equity awards associated with these plans are presented in the following table.

	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation

			Plans
Equity compensation plan approved by the Court	60,295	$ 31.16	7,267,663*

** Excludes the number of securities to be issued upon exercise of outstanding options and 1,997,412 shares underlying outstanding awards granted to employees and/or directors that are unvested and/or unsettled.*

During 2012, we had no equity compensation plans that were not approved by the Court or by shareholders. For further information on our equity compensation plans, including the weighted average exercise price, see *Item 8. Financial Statements and Supplementary Data, Note 18 Retirement, Other Postretirement and Other Benefit Plans*.

Unregistered Sales of Equity Securities There were no sales of common stock during 2012, however, there were issuances of common stock under equity compensation plans and an employee stock purchase plan.

On December 10, 2009, the effective date of our plan of reorganization, we provided for 600,000,000 shares of authorized common stock, par value $0.01 per share, of which 200,000,000 shares were issued, and 100,000,000 shares of authorized new preferred stock, par value $0.01 per share, of which no shares were issued. We reserved 10,526,316 shares of common stock for future issuance under the Amended and Restated CIT Group Inc. Long-Term Incentive Plan.

Based on the Confirmation Order, the Company relied on Section 1145(a)(1) of the United States Bankruptcy Code to exempt from the registration requirements of the Securities Act of 1933, as amended, the issuance of the new securities.

Shareholder Return The following graph shows the semi-annual cumulative total shareholder return for common stock during the period from December 10, 2009 to December 31, 2012. Five year historical data is not presented since we emerged from bankruptcy on December 10, 2009 and the stock performance of CIT s common stock is not comparable to the performance of pre-bankruptcy CIT s common stock. The chart also shows the cumulative returns of the S&P 500 Index and S&P Banks Index for the same period. The comparison assumes $100 was invested on December 10, 2009 (the date our new common stock began trading on the NYSE). Each of the indices shown assumes that all dividends paid were reinvested.

CIT STOCK PERFORMANCE DATA

Item 6. Selected Financial Data

The following table sets forth selected consolidated financial information regarding our results of operations, balance sheets and certain ratios.

The Company has revised its total assets and total liabilities on its Balance Sheets at December 31, 2011 and 2010, and the respective quarters in 2012 and 2011, from the results released in the Company s January 29, 2013 Earnings Release and Current Report on Form 8-K filing. The subsequent revisions reduced other assets and other liabilities and did not have any impact on tangible book value per common share for those periods or any line items in the Statement of Operations. See *Note 27 Selected Quarterly Financial Data* in *Item 8. Financial Statements and Supplementary Data.*

As detailed in *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations*, upon emergence from bankruptcy on December 10, 2009, CIT adopted fresh start accounting effective December 31, 2009, which resulted in data subsequent to adoption not being comparable to data in periods prior to emergence. Therefore, balance sheet information for CIT at December 31, 2012, 2011, 2010 and 2009 and statement of operations information for the years ended December 31, 2012, 2011 and 2010 are presented separately. Data for the years ended December 2009 and 2008 and at December 2008 represent amounts for Predecessor CIT. Predecessor CIT presents the operations of the home lending business as a discontinued operation.

The data presented below is explained further in, and should be read in conjunction with, *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations* and *Item 7A. Quantitative and Qualitative Disclosures about Market Risk* and *Item 8. Financial Statements and Supplementary Data*.

Select Data (dollars in millions)

	At or for the Years Ended December 31,					
	CIT				Predecessor CIT	
	2012	2011	2010	2009	2009	2008
Select Statement of Operations Data						
Net interest revenue	$ (1,328.3)	$ (565.7)	$ 639.3	$	$ (308.1)	$ 499.1
Provision for credit losses	(51.6)	(269.7)	(820.3)		(2,660.8)	(1,049.2)
Total non-interest income	2,437.7	2,620.3	2,653.3		1,560.2	2,460.3
Total other expenses	(1,512.6)	(1,606.5)	(1,700.9)		(2,795.7)	(2,986.5)
Reorganization items and fresh start adjustments					4,240.2	
Net income (loss)	(592.3)	14.8	521.3		(3.8)	(2,864.2)
Per Common Share Data						
Diluted income (loss) per common share	$ (2.95)	$ 0.07	$ 2.60	$	$ (0.01)	$ (2.69)
Book value per common share	$ 41.49	$ 44.27	$ 44.54	$ 41.99	$	$ 13.22
Tangible book value per common share	$ 39.61	$ 42.23	$ 42.17	$ 39.06	$	$ 11.78
Performance Ratios						
Return on average common stockholders equity	(7.0)%	0.2%	6.0%		N/M	(11.0)%
Net finance revenue as a percentage of average earning assets	(0.24)%	1.53%	3.95%		0.75%	2.05%
Return on average total assets	(1.34)%	0.03%	0.93%		N/M	(0.85)%
Total ending equity to total ending assets	18.9%	19.6%	17.3%	13.9%		10.1%
Balance Sheet Data						

	At or for the Years Ended December 31,					
Loans including receivables pledged	$20,847.6	$19,905.9	$24,648.4	$35,185.1	$	$53,126.6
Allowance for loan losses	(379.3)	(407.8)	(416.2)			(1,096.2)
Operating lease equipment, net	12,411.7	12,006.4	11,155.0	10,927.5		12,706.4
Goodwill and intangible assets, net	377.8	409.5	474.7	586.6		698.6
Total cash and short-term investments	7,571.6	8,374.0	11,205.4	9,826.2		8,365.8
Total assets	44,012.0	45,263.4	51,453.4	60,561.5		80,448.9
Deposits	9,684.5	6,193.7	4,536.2	5,177.7		2,626.8
Total long-term borrowings	21,961.8	26,307.7	34,049.3	43,333.1		63,750.7
Total common stockholders equity	8,334.8	8,883.6	8,929.1	8,400.0		5,138.0
Credit Quality						
Non-accrual loans as a percentage of finance receivables	1.59%	3.53%	6.57%	4.47%	6.86%	2.66%
Net charge-offs as a percentage of average finance receivables	0.37%	1.16%	1.53%		4.04%	0.90%
Allowance for loan losses as a percentage of finance receivables	1.82%	2.05%	1.69%		4.33%	2.06%
Financial Ratios						
Tier 1 Capital Ratio	16.3%	18.8%	19.0%	14.2%		9.4%
Total Capital Ratio	17.0%	19.7%	19.9%	14.2%		13.1%

The following table presents CIT s individual components of net interest revenue and operating lease margins.

Average Balances(1) **and Associated Income for the year ended:** (dollars in millions)

	December 31, 2012			December 31, 2011			December 31, 2010		
	Average Balance	Interest	Average Rate (%)	Average Balance	Interest	Average Rate (%)	Average Balance	Interest	Average Rate (%)
Interest bearing deposits	$ 6,612.2	$ 21.8	0.33%	$ 7,032.1	$ 24.2	0.34%	$ 9,382.0	$ 19.6	0.21%
Investments	1,320.9	10.5	0.79%	1,962.3	10.6	0.54%	397.2	12.1	3.05%
Loans (including held for sale)(2)(3)									
U.S.	17,190.7	1,131.7	7.07%	19,452.5	1,608.3	8.76%	24,561.1	2,732.9	11.55%
Non-U.S.	4,029.1	405.1	10.06%	4,566.2	585.6	12.83%	6,280.0	954.4	15.22%

	December 31, 2012			December 31, 2011			December 31, 2010		
Total loans(2)	21,219.8	1,536.8	7.67%	24,018.7	2,193.9	9.57%	30,841.1	3,687.3	12.32%
Total interest earning assets / interest income(2)(3)	29,152.9	1,569.1	5.61%	33,013.1	2,228.7	6.98%	40,620.3	3,719.0	9.37%
Operating lease equipment, net (including held for sale)(4)									
U.S.(4)	6,139.0	596.9	9.72%	5,186.7	428.1	8.25%	4,922.1	383.9	7.80%
Non-U.S.(4)	6,299.0	654.5	10.39%	6,220.0	664.3	10.68%	6,062.7	588.7	9.71%
Total operating lease equipment, net(4)	12,438.0	1,251.4	10.06%	11,406.7	1,092.4	9.58%	10,984.8	972.6	8.85%
Total earning assets(2)	41,590.9	$2,820.5	6.98%	44,419.8	$3,321.1	7.67%	51,605.1	$4,691.6	9.25%
Non interest earning assets									
Cash due from banks	435.4			938.8			1,039.1		
Allowance for loan losses	(405.1)			(412.0)			(288.3)		
All other non-interest earning assets	2,671.1			3,094.0			3,557.1		
Total Average Assets	**$44,292.3**			**$48,040.6**			**$55,913.0**		
Average Liabilities									
Borrowings									
Deposits	$ 7,707.9	$ 152.5	1.98%	$ 4,796.6	$ 111.2	2.32%	$ 4,780.1	$ 87.4	1.83%
Long-term borrowings(5)	24,235.5	2,744.9	11.33%	30,351.5	2,683.2	8.84%	38,769.3	2,992.3	7.72%
Total interest-bearing liabilities	31,943.4	$2,897.4	9.07%	35,148.1	$2,794.4	7.95%	43,549.4	$3,079.7	7.07%
Credit balances of factoring clients	1,194.4			1,098.1			910.5		
Other non-interest bearing liabilities	2,665.5			2,834.1			2,763.1		
Noncontrolling interests	5.0			1.1			(3.5)		
Stockholders equity	8,484.0			8,959.2			8,693.5		
Total Average Liabilities and Stockholders Equity	**$44,292.3**			**$48,040.6**			**$55,913.0**		
Net revenue spread			(2.09)%			(0.28)%			2.18%
Impact of non-interest bearing sources			1.90%			1.50%			1.00%
Net revenue/yield on earning assets(2)		$ (76.9)	(0.19)%		$ 526.7	(1.22)%		$1,611.9	3.18%

(1) *The average balances presented are derived based on month end balances during the year. Tax exempt income was not significant in any of the years presented. Average rates are impacted by FSA accretion and amortization.*

(2) *The rate presented is calculated net of average credit balances for factoring clients.*

(3) *Non-accrual loans and related income are included in the respective categories.*

(4) *Operating lease rental income is a significant source of revenue; therefore, we have presented the rental revenues net of depreciation.*

(5) *Interest and average rates include FSA accretion, including amounts accelerated due to redemptions or extinguishments, prepayment penalties, and accelerated original issue discount on debt extinguishment related to the GSI facility.*

The table below disaggregates CIT s year-over-year changes (2012 versus 2011 and 2011 versus 2010) in net interest revenue and operating lease margins as presented in the preceding tables between volume (level of lending or borrowing) and rate (rates charged customers or incurred on borrowings). See *'Net Finance Revenue* section for further discussion.

Changes in Net Finance Revenue (dollars in millions)

	2012 Compared to 2011			2011 Compared to 2010		
	Increase (decrease) due to change in:			Increase (decrease) due to change in:		
	Volume	Rate	Net	Volume	Rate	Net
Interest Income						
Loans (including held for sale)						
U.S.	$(160.0)	$ (316.5)	$(476.5)	$(447.6)	$ (677.0)	$(1,124.6)
Non-U.S.	(54.0)	(126.6)	(180.6)	(219.9)	(148.9)	(368.8)
Total loans	(214.0)	(443.1)	(657.1)	(667.5)	(825.9)	(1,493.4)
Interest bearing deposits	(1.4)	(1.0)	(2.4)	(8.1)	12.7	4.6
Investments	(5.1)	5.0	(0.1)	8.5	(10.0)	(1.5)
Interest income	(220.5)	(439.1)	(659.6)	(667.1)	(823.2)	(1,490.3)
Operating lease equipment, net (including held for sale)(1)	100.8	58.2	159.0	38.6	81.2	119.8
Interest Expense						
Interest on deposits	57.6	(16.3)	41.3	0.4	23.4	23.8
Interest on long-term borrowings(2)	(692.7)	754.4	61.7	(744.2)	435.1	(309.1)
Interest expense	(635.1)	738.1	103.0	(743.8)	458.5	(285.3)
Net finance revenue	$ 515.4	$(1,119.0)	$(603.6)	$ 115.3	$(1,200.5)	$(1,085.2)

(1) *Operating lease rental income is a significant source of revenue; therefore, we have presented the net revenues.*

(2) *Includes acceleration of FSA accretion resulting from redemptions or extinguishments, prepayment penalties, and accelerated original issue discount on debt extinguishment related to the GSI facility.*

The average long-term borrowings balances presented below, both quarterly and for the full year, were derived based on daily balances and the average rates are based on a 30 days per month day count convention. The average rates include FSA accretion, including amounts accelerated due to redemptions or extinguishments and prepayment costs. The debt coupon rates at December 31, 2012, were as follows: Senior Unsecured Notes 4.90%, Series C Notes (other) 5.37%, Other Debt 6.02% (pre-FSA basis), Secured Borrowings 2.30% (pre-FSA basis), and Revolving Credit Facility 2.71%. The aggregate long-term borrowing weighted average rate at December 31, 2012 was 3.81%, 5.12% at December 31, 2011 and 5.54% at December 31, 2010.

Average Daily Long-term Borrowings Balances and Rates (dollars in millions)

	Quarters Ended									
	December 31, 2012			September 30, 2012			June 30, 2012			
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance
Unsecured										
Revolving Credit Facility	$ 113.6	$ 1.0	3.45%	$ 354.6	$ 2.7	3.00%	$ 457.5	$ 3.4	2.95%	$ 210.8
Senior Unsecured	6,500.0	82.7	5.09%	5,435.5	68.9	5.07%	2,766.7	36.9	5.34%	266.7
Series C Notes (Exchanged)(1)				2,936.3	532.9	72.59%	5,906.4	410.0	27.77%	7,982.4
Series C Notes (other)	5,250.0	70.5	5.37%	5,250.0	72.3	5.51%	5,250.0	72.3	5.51%	3,942.5
Other debt(1)	84.0	10.7	50.99%	85.4	2.7	12.67%	86.5	2.6	12.08%	86.4
Total Unsecured Debt	11,947.6	164.9	5.52%	14,061.8	679.5	19.33%	14,467.1	525.2	14.52%	12,488.8
Secured										
Secured borrowings(1)	10,284.8	159.2	6.19%	10,544.7	98.1	3.72%	10,243.4	73.7	2.88%	10,347.8
Series A Notes(1)										3,424.8
Total Secured Debt	10,284.8	159.2	6.19%	10,544.7	98.1	3.72%	10,243.4	73.7	2.88%	13,772.6
Total Long-term Borrowings	$22,232.4	$324.1	5.83%	$24,606.5	$777.6	12.64%	$24,710.5	$598.9	9.69%	$26,261.4

(1) *See footnote 1 on next table.*

Average Daily Long-term Borrowings Balances and Rates *(dollars in millions)*

	Years Ended								
	December 31, 2012			December 31, 2011			December 31, 2010		
Unsecured									
Revolving Credit Facility	$ 284.1	$ 8.8	3.07%	$	$		$	$	

	Years Ended								
Senior Unsecured	3,742.2	192.0	5.13%						
Series C Notes (Exchanged)(1)	4,206.3	1,132.5	26.92%						
Series C Notes (other)	4,923.1	270.5	5.49%						
Other debt(1)	85.6	18.7	21.86%						
Total Unsecured Debt	13,241.3	1,622.5	12.25%						
<u>**Secured**</u>									
Secured borrowings(1)	10,355.1	438.6	4.24%	10,022.3	563.3	5.62%	13,006.6	526.1	4.04%
First Lien Term Facility(1)				1,916.3	42.9	2.24%	4,907.4	455.9	9.29%
Revolving Credit Facility				479.3	14.9	3.11%			
Series A Notes(1)	856.2	683.8	79.86%	11,970.8	1,538.0	12.85%	18,915.0	1,779.2	9.41%
Series B Notes(1)				6.3	2.1	16.03%	1,944.3	209.1	10.75%
Series C Notes (Exchanged)(1)				4,282.3	415.3	9.70%			
Series C Notes (other)				1,505.5	91.1	6.05%			
Other debt				127.9	15.6	12.19%	206.8	22.0	10.64%
Total Secured Debt	11,211.3	1,122.4	10.01%	30,310.7	2,683.2	8.85%	38,980.1	2,992.3	7.68%
Total Long-term Borrowings	$24,452.6	$2,744.9	11.22%	$30,310.7	$2,683.2	8.85%	$38,980.1	$2,992.3	7.68%

(1) *Interest expense includes accelerated FSA accretion (amortization), prepayment penalties, and accelerated original issue discount on debt extinguishment related to the GSI facility, as presented in the following table.*

	Quarters Ended				Years Ended December 31,		
	December 31, 2012	**September 30, 2012**	**June 30, 2012**	**March 31, 2012**	**2012**	**2011**	**2010**
Series C Notes (Exchanged) accelerated FSA	$	$453.9	$264.9	$	$ 718.8	$	$
Series A Notes accelerated FSA				596.9	596.9	289.7	
Series A Notes prepayment penalty						99.2	
Secured Borrowings student lending facility accelerated FSA	121.5				121.5	88.0	
Secured Borrowings student lending facility accelerated original issue discount on debt extinguishments related to the GSI facility	(45.7)				(45.7)		
Secured Borrowings Transportation Finance accelerated original issue discount on debt extinguishments related to the GSI facility	(6.9)				(6.9)		

	Quarters Ended				Years Ended December 31,		
Other Secured Borrowings accelerated FSA	13.7				13.7		
First Lien Term Facility accelerated FSA						(85.0)	(56.8)
First Lien Term Facility prepayment penalty							89.0
Series B Notes accelerated FSA						(13.5)	(29.0)
Series B Notes prepayment penalty						15.0	48.9
Total	$ 82.6	$453.9	$264.9	$596.9	$1,398.3	$393.4	$ 52.1

Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations and

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

BACKGROUND

CIT Group Inc., together with its subsidiaries (we , our , CIT or the Company) has provided financial solutions to its clients since its formation in 1908. CIT became a bank holding company (BHC) in December 2008, and is regulated by the Board of Governors of the Federal Reserve System (FRS) and the Federal Reserve Bank of New York (FRBNY) under the U.S. Bank Holding Company Act of 1956 (BHC Act). CIT Bank, a wholly-owned subsidiary, is a state chartered bank located in Salt Lake City, Utah, that offers commercial financing and leasing products as well as deposit products, such as certificates of deposits (CDs) and savings accounts.

We operate primarily in North America, with locations in Europe, South America and Asia. We are a commercial lender and lessor, providing financial solutions to small businesses and middle market companies. Our clients operate in over 20 countries and in over 30 industries, including transportation, particularly aerospace and rail, manufacturing and retail. We originated over $9 billion of funded new business volume during 2012 and have nearly $34 billion of financing and leasing assets at December 31, 2012.

Management s Discussion and Analysis of Financial Condition and Results of Operations and *Quantitative and Qualitative Disclosures about Market Risk* contain financial terms that are relevant to our business and a glossary of key terms used is included in Part I *Item 1. Business Section.*

Management uses certain non-GAAP financial measures in its analysis of the financial condition and results of operations of the Company. See *Non-GAAP Financial Measurements* for a reconciliation of these to comparable GAAP measures.

2012 PRIORITIES AND COMMENTARY

Our 2012 priorities were developed to further advance our broader strategic initiatives and were centered on improving our financial condition, enhancing our business model, and further improving our approach to risk management and control functions. During the year, we reached an important strategic milestone as we completed the refinancing and/or repayment of all of the nearly $31 billion of debt that was issued in the 2009 restructuring. The following highlights some of our accomplishments:

1. Accelerate Growth and Business Development Initiatives

- Increased commercial assets. Commercial financing and leasing assets increased each quarter throughout 2012 and 8%, or $2.3 billion, for the year to $30.2 billion, driven by growth in Corporate Finance and Vendor Finance, and expansion of our air and rail leasing portfolios. We also agreed to acquire $1.3 billion of commercial loan commitments (of which approximately $800 million was outstanding) on December 31, 2012, the purchase of which should be substantially completed during the first quarter of 2013.

- Increased new business activity. We funded new business volume of $9.6 billion during 2012, a 23% increase over 2011 on strong Corporate Finance activity. Committed volume, which totaled $11.3 billion, was up 20%.

2. Improve Profitability While Maintaining Financial Strength

- We reported a net loss of $592 million and pre-tax loss of $455 million for 2012, which were driven by debt redemption charges. The pre-tax loss compared to pre-tax income of $178 million for 2011 and $771 million for 2010. However, pre-tax income excluding debt redemption charges and accelerated original issue discount (OID) on debt extinguishment related to the GSI facility[3] improved to $1.0 billion from $707 million in 2011 and $824 million in 2010, on a comparable basis.

- Lowered funding costs. The weighted average coupon rates of outstanding deposits and long-term borrowings declined to 3.18% at December 31, 2012 from 4.69% and 5.30% at December 31, 2011 and 2010, respectively.

- Increased proportion of funding provided by deposits. As of December 31, 2012, total CIT deposits were $9.7 billion and comprised 31% of total CIT funding, compared to 19% and 12% at December 31, 2011 and 2010, respectively.

- Maintained strong capital position. Tier 1 and Total Capital ratios at December 31, 2012 were 16.3% and 17.0%, respectively, well above regulatory requirements.

- Maintained strong liquidity. Liquidity to total assets was 22% at December 31, 2012, down slightly from 23% at December 31, 2011. Liquidity includes cash and short-term investments and the unused portion of the Revolving Credit Facility.

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(3) Pre-tax income excluding debt redemption charges and accelerated OID on debt extinguishment related to the GSI facility is a non-GAAP measure. Debt redemption charges include accelerated fresh start accounting debt discount amortization, loss on debt extinguishments and prepayment costs. See Non-GAAP Financial Measurements for components and for reconciliation of non-GAAP to GAAP financial information.

3. Expand CIT Bank Assets and Funding

- Increased bank assets. Total assets at CIT Bank increased to $12.2 billion at December 31, 2012, from $9.0 billion and $7.1 billion at December 31, 2011 and 2010, respectively, reflecting growth in commercial financing and leasing assets.

- Increased asset origination activity. Funded new business volume totaled $6.0 billion, which represents over 90% of total U.S. volume in 2012, up from 72% in 2011. Committed loan volume rose to $7.6 billion from $4.4 billion for 2011.

- Diversified deposit sources. Placed approximately $4.5 billion of deposits since launching online banking platform in the 2011 fourth quarter. CIT Bank began offering on-line savings accounts in March 2012 to supplement the suite of CD offerings.

2012 FINANCIAL OVERVIEW

Our 2012 operating results reflected increased commercial business activity and debt redemption and refinancing activities. We achieved our goal of refinancing or redeeming all the approximately $31 billion of debt incurred in the 2009 restructuring, including over $15 billion in 2012, which caused acceleration of FSA debt discount accretion.

Net loss for 2012 totaled $592 million, $2.95 per diluted share, and was largely influenced by debt redemption charges. The net loss compares to net income of $15 million for 2011, or $0.07 per diluted share and $521 million for 2010, $2.60 per diluted share. The 2012 amounts included $1.5 billion of debt redemption charges, while the prior periods included debt redemption charges of $528 million and $52 million for 2011 and 2010, respectively.

Pre-tax loss totaled $455 million for 2012 compared to pre-tax income of $178 million for 2011 and $771 million in 2010. Although down on a GAAP basis, pre-tax income excluding debt redemption charges, net FSA accretion/amortization and accelerated OID on debt extinguishment related to the GSI facility[(4)] for 2012 was nearly $640 million, up from $292 million in 2011 and a pre-tax loss of $581 million in 2010, driven by lower funding costs and lower credit costs. 2012 included net FSA costs of $1.1 billion, primarily due to the acceleration of interest expense related to the redemption of over $15 billion of high cost debt, while 2011 and 2010 included net FSA benefits of $135 million and $1.5 billion, respectively.

The following table presents pre-tax results adjusted for debt redemption charges, net FSA accretion / amortization and accelerated OID on debt extinguishment related to the GSI facility. This is a non-GAAP measurement.

Impacts of FSA Accretion and Debt Refinancing Costs on Pre-tax Income (Loss) (dollars in millions)

	Years Ended December 31,		
	2012	**2011**	**2010**
Pre-tax income/(loss) reported	$ (454.8)	$ 178.4	$ 771.4
Accelerated FSA net discount/(premium) on debt extinguishments and repurchases	1,450.9	279.2	(85.8)
Debt related loss on debt extinguishments	61.2	134.8	
Accelerated OID on debt extinguishments related to the GSI facility	(52.6)		
Debt related prepayment costs		114.2	137.9
Total debt redemption charges and OID acceleration	1,459.5	528.2	52.1
Pre-tax income excluding debt redemption charges and OID acceleration	1,004.7	706.6	823.5
Net FSA accretion (excluding debt related acceleration)	(365.2)	(414.4)	(1,404.7)
Pre-tax income (loss) excluding debt redemption charges, FSA net accretion and OID acceleration	$ 639.5	$ 292.2	$ (581.2)

Net finance revenue[(5)] (NFR) continued to be impacted by accelerated interest expense related to the redemption of high cost debt during 2012. The negative NFR for 2012 was driven by the FSA discount accretion resulting from repayments of over $15 billion of high cost debt. NFR was $527 million for 2011 and $1.6 billion for 2010. Average earning assets[(5)] (AEA) were $32.5 billion in 2012, down $1.8 billion from 2011 and $8.3 billion from 2010, primarily due to student loan sales. Average commercial earning assets increased during 2012 to $27.6 billion in 2012, from $26.7 billion 2011 but was down from $31.9 billion in 2010. NFR as a percentage of AEA (net finance margin or NFM) was negative and below 2011 and 2010 reflecting debt redemption costs. Excluding net FSA accretion, debt redemption charges and accelerated OID on debt extinguishment related to the GSI facility, net finance margin was 2.95% for 2012, improved from 1.60% in 2011 and 0.74% in 2010, driven by lower funding costs and the reduction of low yielding assets. Net operating lease revenue increased compared to 2011 and 2010 on higher assets. While other institutions may use net interest margin (NIM), defined as interest income less interest expense, we discuss NFR, which includes operating lease rental revenue and depreciation expense, due to their significant impact on revenue and expense.

Provision for credit losses for 2012 was $52 million, down from $270 million last year and $820 million in 2010. The 2010 provision included $416 million for the establishment of loan loss reserves post the adoption of FSA. The lower trend in provisions reflects a reduction in specific reserves and the overall improvements in credit metrics, including lower net charge-offs and non-accrual balances.

(4) *Pre-tax income excluding debt redemption charges, net FSA accretion/amortization and accelerated OID on debt extinguishment related to the GSI facility is a non-GAAP measure. See Non-GAAP Financial Measurements for reconciliation of non-GAAP financial information.*

(5)

Net finance revenue and average earning assets are non-GAAP measures; see Non-GAAP Financial Measurements for a reconciliation of non-GAAP to GAAP financial information.

Other income of $653 million decreased from $953 million in 2011 and $1.0 billion in 2010, largely due to reduced gains on assets sold and fewer recoveries of loans charged off pre-emergence and loans charged off prior to transfer to held for sale. Factoring commissions of $127 million were down from 2011 and 2010, reflecting lower factoring volume.

Operating expenses were $918 million, up from $897 million in 2011, as higher compensation and benefit costs along with costs related to raising deposits offset lower professional fees, and down from $1.0 billion in 2010 on lower compensation and benefit costs and professional fees. Headcount at December 31, 2012, 2011 and 2010 was approximately 3,560, 3,530, and 3,780, respectively.

Provision for income taxes was $134 million for 2012, compared to $159 million for 2011 and $246 million for 2010. The tax provision predominantly reflects provisions for taxable income generated by our international operations and no income tax benefit on our U.S. losses.

Total assets at December 31, 2012 were $44.0 billion, down from $45.3 billion and $51.5 billion at December 31, 2011 and 2010, respectively, as growth in commercial financing and leasing assets was offset by sales and runoff of over $4 billion of government-guaranteed student loans since 2010. Commercial financing and leasing assets increased to $30.2 billion, up $2.3 billion from a year-ago and $1.5 billion from December 31, 2010. Cash and short-term investments totaled $7.6 billion, down from $8.4 billion and $11.2 billion at December 31, 2011 and 2010, respectively.

Funded new business volume of $9.6 billion during 2012 increased 23% from 2011 on strong Corporate Finance activity, while committed new business volume of $11.3 billion increased 20%. Both metrics were significantly above 2010 levels. Trade Finance factoring volume of $25.1 billion decreased 3% from 2011 and 6% from 2010.

Credit metrics reflected favorable trends. Net charge-offs of $74 million declined from $265 million in 2011 and $465 million in 2010, essentially due to improvements in Corporate Finance and Vendor Finance. Net charge-offs in the commercial segments were 0.46%, down significantly from 1.68% in 2011 and 2.04% in 2010. Non-accrual balances declined over 50% to $332 million at December 31, 2012 from $702 million a year ago and down significantly from $1.6 billion at December 31, 2010.

PRIOR PERIOD REVISIONS

In preparing its quarterly financial statements for the first three quarters of 2012, the Company discovered, corrected and disclosed the larger amounts in those quarters immaterial errors that impacted prior periods. Additional out-of-period errors were identified in the fourth quarter. These additional out-of-period errors were individually and in the aggregate not material to the fourth quarter results but, when combined with the other out-of-period errors previously identified this year, were determined by management to be material to the full year 2012 results.

The cumulative effect of these revisions was to increase tangible book value (TBV) by $8 million, as accumulated deficit decreased by $9 million, accumulated other comprehensive loss decreased by $14 million and goodwill increased by $15 million. As a result of these revisions, the net loss for the quarters ended September 30 and March 31, 2012 was decreased by approximately $6 million and $20 million, respectively, and the net loss for the quarter ended June 30, 2012 was increased by $2 million, from our previously reported amounts. As a result of these revisions, the net income for the years ended December 31, 2011 and 2010 decreased by $12 million and $3 million, respectively, from previously reported amounts. As a result of our adoption of fresh start accounting, the recognition of amounts relating to periods prior to 2010 resulted in a corresponding $15 million increase to goodwill.

Management will revise in subsequent quarterly filings on Form 10-Q and has revised in Item 8 Financial Data and Supplementary Data, Note 27 Select Quarterly Data, its previously reported financial statements for 2012, 2011 and 2010. All prior period data reflects the revised balances.

2013 PRIORITIES

During 2013, we will focus on continued progress toward profitability targets by growing earning assets, managing expenses and growing CIT Bank assets and deposits. Enhancing internal control functions and our relationships with our regulators will also remain a focus for 2013.

Specific business objectives established for 2013 include:

- Prudently Grow Assets We plan to grow earning assets, either organically or through portfolio acquisitions, by focusing on existing products and markets as well as newer initiatives, including equipment finance, real estate finance, and maritime finance.
- Execute on Expense Initiatives In order to achieve and maintain our target pre-tax return on average earning assets of between 2.0% and 2.5%, we plan to reduce the quarterly run rate of operating expenses by $15 million to $20 million from third quarter 2012 levels. These improvements will be phased in over 2013 through improved operating efficiencies and expense reductions.
- Continue to Expand CIT Bank CIT Bank will continue to fund virtually all of our U.S. lending and leasing volume, expand on-line deposit offerings and begin to implement a thin branch network.
- Continue Progress Towards Profitability Targets We will focus on managing towards our return on asset targets in order to improve profitability and grow book value.

PERFORMANCE MEASUREMENTS

The following chart reflects key performance indicators evaluated by management and used throughout this management discussion and analysis:

KEY PERFORMANCE METRICS	MEASUREMENTS
Asset Generation to originate new business and build earning assets.	-Origination volumes; and -Financing and leasing assets balances.
Revenue Generation lend money at rates in excess of cost of borrowing, earn rentals on the equipment we lease commensurate with the risk, and generate other revenue streams.	-Net finance revenue and other income; -Asset yields and funding costs; -Net finance revenue as a percentage of average earning assets (AEA); and -Operating lease revenue as a percentage of average operating lease equipment (AOL).
Credit Risk Management accurately evaluate credit worthiness of customers, maintain high-quality assets and balance income potential with loss expectations.	-Net charge-offs; -Non-accrual loans; classified assets; delinquencies; and -Loan loss reserve.
Equipment and Residual Risk Management appropriately evaluate collateral risk in leasing and lending transactions and remarket equipment at lease termination.	-Equipment utilization; -Value of equipment; and -Gains and losses on equipment sales.
Expense Management maintain efficient operating platforms and related infrastructure.	-Operating expenses and trends; and -Operating expenses as percentage of AEA.
Profitability generate income and appropriate returns to shareholders.	-Net income per common share (EPS); -Net income as a percentage of average earning assets (ROA); and -Net income as a percentage of average common equity (ROE).
Capital Management maintain a strong capital position.	-Tier 1 and Total capital ratio; and -Tier 1 capital as a percentage of adjusted average assets (Tier 1 Leverage Ratio).
Liquidity Risk maintain access to ample funding at competitive rates.	-Cash and short term investment securities; -Committed and available funding facilities;

	-Debt maturity profile; and -Debt ratings.
Market Risk substantially insulate profits from movements in interest and foreign currency exchange rates.	-Net Interest Income Sensitivity; and -Economic Value of Equity (EVE).

NET FINANCE REVENUE

The following tables present management s view of consolidated margin and includes revenues from loans and leased equipment, net of interest expense and depreciation, in dollars and as a percent of average earning assets.

Net Finance Revenue(1) (dollars in millions)

	Years Ended December 31,		
	2012	**2011**	**2010**
Interest income	$ 1,569.1	$ 2,228.7	$ 3,719.0
Rental income on operating leases	1,784.6	1,667.5	1,648.4
Finance revenue	3,353.7	3,896.2	5,367.4
Interest expense	(2,897.4)	(2,794.4)	(3,079.7)
Depreciation on operating lease equipment	(533.2)	(575.1)	(675.8)
Net finance revenue	$ (76.9)	$ 526.7	$ 1,611.9
Average Earning Assets(2) (AEA)	$32,522.0	$34,371.6	$40,844.4
As a % of AEA:			
Interest income	4.82%	6.48%	9.10%
Rental income on operating leases	5.49%	4.85%	4.04%
Finance revenue	10.31%	11.33%	13.14%
Interest expense	(8.91)%	(8.13)%	(7.54)%
Depreciation on operating lease equipment	(1.64)%	(1.67)%	(1.65)%
Net finance revenue	(0.24)%	1.53%	3.95%
As a % of AEA by Segment:			
Corporate Finance	0.83%	3.02%	6.85%
Transportation Finance	0.14%	2.14%	1.40%
Trade Finance	(2.06)%	(1.27)%	(3.70)%
Vendor Finance	4.08%	6.90%	8.60%
Commercial Segments	0.98%	3.18%	4.66%
Consumer	(1.06)%	(0.31)%	1.28%

(1) *Net finance revenue and average earning assets are non-GAAP measures; see reconciliation of non-GAAP to GAAP financial information.*

(2) *Average earning assets are less than comparable balances displayed later in this document in 'Select Quarterly Financial Data (Quarterly Average Balances) due to the exclusion of deposits with banks and other investments and the inclusion of credit balances of factoring clients.*

Net finance revenue (NFR) and NFR as a percentage of AEA (Net Finance Margin or NFM) are key metrics used by management to measure the profitability of our lending and leasing assets. NFR includes interest and fee income on our loans and capital leases, interest and dividend income on cash and investments, rental revenue and depreciation from our leased equipment, as well as funding costs. Given our asset composition includes a high level of operating lease equipment (38% of average earning assets), NFM is a more appropriate metric for CIT than net interest margin (NIM) (a common metric used by other bank holding companies), as NIM does not fully reflect the earnings of our portfolio because it includes the impact of debt costs on all our assets but excludes the net revenue (rental revenue less depreciation) from operating leases.

NFR continued to be significantly impacted by FSA accretion in 2012. Net FSA accretion (FSA accretion included in interest income and expense, and depreciation and rental income) decreased NFR by $1.2 billion during 2012, compared to increases of $25 million in 2011 and $1.4 billion in 2010. The 2012 period included significantly higher debt FSA discount accretion resulting from repayments of high cost debt (accelerated debt FSA accretion) and accelerated OID on debt extinguishment related to the GSI facility (accelerated OID accretion), which when discussed in combination is referred to as accelerated debt FSA and OID accretion . See *Fresh Start Accounting* section for FSA accretion details and the first table in *Segments* for accelerated debt FSA and OID accretion balances. As detailed in the following table, absent net FSA accretion, accelerated OID accretion and prepayment costs, adjusted NFR was $1.1 billion, up from $616 million in 2011 and $353 million in 2010. The improvement from both periods reflects lower funding costs, while the increase from 2011 also reflects a benefit from higher commercial segment average earning assets.

As detailed below, NFM included significant impact from net FSA accretion, accelerated OID on debt extinguishments related to the GSI facility and debt prepayment costs.

Adjusted NFR ($) and NFM (%) (dollars in millions)

	Years Ended December 31,					
	2012		2011		2010	
NFR / NFM	$ (76.9)	(0.24)%	$526.7	1.53%	$ 1,611.9	3.95%
FSA impact on NFR and NFM	1,181.8	3.33%	(25.3)	(0.23)%	(1,396.5)	(3.50)%
Debt related prepayment costs			114.2	0.30%	137.9	0.29%
Accelerated OID on debt extinguishments related to the GSI facility	(52.6)	(0.14)%				
Adjusted NFR / NFM	$1,052.3	2.95%	$615.6	1.60%	$ 353.3	0.74%

NFR and Adjusted NFR are non-GAAP measures, see Non-GAAP Financial Measurements for a reconciliation of non-GAAP to GAAP financial information.

NFM was down from 2011 and 2010 reflecting accelerated debt FSA and lower net FSA, partially offset by OID accretion. Adjusted NFM, improved over the prior-year periods due to continued reduction in funding costs, a continued shift in asset mix to higher-yielding commercial assets, as well as higher amount of suspended depreciation and other yield related items. Lower funding costs resulted from our liability actions, which included paying off high cost debt and deposit growth. Suspended depreciation on operating lease equipment held for sale, described below, benefits NFM until the asset is sold. Interest recoveries, which resulted from non-accrual asset prepayments, sales and assets returning to accrual status, and certain other yield-related fees, were up in 2012.

Generally, 2012 new business yields in Corporate Finance remained relatively stable within product types. Utilization rates in air and railcar assets in Transportation Finance remained strong as discussed below. Asset yields, which vary by vendor program, geography and types of credit in Vendor Finance, were generally stable in 2012, but there was some pricing pressure.

2011 NFM excluding FSA and prepayment penalties improved over 2010 as lower funding costs and stabilizing asset yields partially offset reduced benefits from the GSI Facilities. While the benefits from the GSI Facilities were down, net finance margin continued to benefit from discount recapture stemming from collateral prepayments on the underlying securities. Excluding FSA and the effect of prepayment penalties on high-cost debt, margin during 2010 grew sequentially during the first three quarters due to a decrease in high cost debt. During the fourth quarter, our yield compressed as the sale of non-strategic consumer receivables (which carried higher yields and a higher risk profile) in Vendor Finance and the pressure on rental margins, including the impact from the return of aircraft from a bankrupt carrier, more than offset the benefits of paying down high cost debt.

NFM continued to be impacted by our changing business mix, in which cash and short-term investments and student loans continue to represent a sizable but declining portion of the overall balance sheet. Continued growth in the relative proportion of commercial loans and leases and further declines in non-accrual loan balances, contributed to the improved margin.

Interest income was down from 2011 and 2010 primarily reflecting lower FSA accretion, which totaled $268 million in 2012, $745 million in 2011 and $1.6 billion in 2010. The remaining accretable FSA discount on loans was $355 million at December 31, 2012. The decline from 2011 was partially offset by higher commercial earning assets. While total AEA was down 5% from 2011 and 20% from 2010, both primarily driven by assets sales, principally consumer loans, commercial segment AEA increased about 4% from 2011.

Interest expense included $1.6 billion of FSA accretion and accelerated OID accretion ($1.4 billion due to accelerated debt extinguishments), while 2011 and 2010 included FSA accretion and prepayment costs of $1.0 billion ($393 million due to accelerated debt extinguishments) and $533 million ($52 million due to accelerated debt extinguishments), respectively. The higher 2012 amounts resulted from repayments of over $15 billion in high cost debt in the first three quarters and $1.0 billion of secured debt in the last quarter of 2012. During 2011, CIT had $9.5 billion in debt redemptions and extinguishments.

As a result of our 2012 debt redemption activities and the increased proportion of deposits to total funding, we reduced weighted average coupon rates of outstanding deposits and long-term borrowings to 3.18% at December 31, 2012, from 4.69% at December 31, 2011 and 5.30% at December 31, 2010. The weighted average coupon rate of long-term borrowings at December 31, 2012 was 3.81%, compared to 5.12% at December 31, 2011 and 5.54% at December 31, 2010. Long-term borrowings are discussed in *Funding and Liquidity*. See *Select Financial Data* section for more information on Long-term borrowing rates.

Deposits have increased, both in dollars and proportion of total CIT funding; 31% at December 31, 2012 compared to 19% at December 31, 2011 and 12% at December 31, 2010. The weighted average rate of total CIT deposits at December 31, 2012 was 1.75%, compared to 2.68% at December 31, 2011 and 3.13% at December 31, 2010.

The following table sets forth the details on net operating lease revenue[6], before and after the impact of FSA:

Net Operating Lease Revenue as a % of Average Operating Leases (AOL) (dollars in millions)

	Years Ended December 31,		
	2012	**2011**	**2010**
Rental income on operating leases	14.78%	14.85%	15.01%
Depreciation on operating lease equipment	(4.42)%	(5.12)%	(6.15)%
Net operating lease revenue %	10.36%	9.73%	8.86%
Net operating lease revenue %, excluding FSA	7.20%	6.42%	5.68%
Net operating lease revenue	$ 1,251.4	$ 1,092.4	$ 972.6
Average Operating Lease Equipment (AOL)	$12,072.9	$11,228.9	$10,981.0

Net operating lease revenue increased in amount compared to 2011 and 2010 on higher assets in Transportation Finance and lower depreciation expense in Vendor Finance (discussed further below). Net operating lease revenue also reflects a benefit from net FSA accretion of $189 million, $184 million and $171 million for the years ended December 31, 2012, 2011 and 2010, respectively. These factors also drove the increases in net operating lease revenue as a percent of AOL.

Net operating lease revenue was primarily generated from the aircraft and rail transportation portfolios. Net operating lease revenue from these portfolios improved from the prior years, reflecting higher asset balances and strong asset utilization. Commercial aircraft utilization rates remained strong at over 99% leased at December 31, 2012, essentially unchanged from 2011 and 2010. In the rail portfolio, fleet utilization, including commitments, was over 98%, increased from 97% and 94% at December 31, 2011 and 2010, respectively.

In addition, the 2012 results compared to 2011 and 2010 benefited from lower depreciation expense, primarily in the Vendor Finance business, as a result of certain operating lease equipment being recorded as held for sale. Once a long-lived asset is classified as held for sale, depreciation expense is no longer recognized, but the asset is evaluated for impairment with any such charge recorded in other income. As a result, net operating lease revenue includes rental income on operating lease equipment classified as held for sale, but there is no related depreciation expense. The amount of depreciation not recognized on operating lease equipment in assets held for sale totaled $96 million for 2012, $68 million for the 2011 and was not significant in 2010. The amount of impairment on operating lease assets held for sale totaled $114 million for 2012, $85 million for 2011 and $2 million for 2010. Operating lease equipment in assets held for sale totaled $344 million at December 31, 2012 and $237 million at December 31, 2011, reflecting assets relating to transportation equipment and the previously announced Dell Europe platform sale in Vendor Finance, and none at December 31, 2010.

See *Non-interest Income Impairment on assets held for sale* , *Expenses Depreciation on operating lease equipment* and *Concentrations Operating Leases* for additional information.

CREDIT METRICS

Since the Company s emergence from bankruptcy, management has analyzed credit trends both before and after FSA in order to provide comparability with our longer-term credit trends (which included pre-emergence / historical accounting) and credit trends experienced by other market participants. These dual comparisons are less relevant in 2012 than in prior post emergence periods, and will become even less so prospectively as FSA discount related to loans has declined to $377 million at December 31, 2012 from $5.0 billion at December 31, 2009. As a result, this dual reporting had been de-emphasized during 2012.

Our credit metrics began to improve in the latter half of 2010; a trend that has continued through the end of 2012. This positive trend is consistent with improved global economic conditions, as well as circumstances specific to our portfolio, including the liquidation of lower credit quality legacy assets that had higher expected losses. The result was continued reduction in non-accrual loans and charge-offs remaining at low levels.

Management believes that credit metrics are at, or near, cyclical lows, and does not expect sustained improving trends from these levels. Given current levels, sequential quarterly movements in non-accrual loans and charge-offs in Corporate Finance, Trade Finance and Transportation Finance are subject to volatility around longer term trends if larger accounts migrate in and out of non-accrual status or get resolved. Given the smaller ticket, flow nature of Vendor Finance, we do not expect quarter-over-quarter movement in these metrics to be as significant in this business.

As a percentage of average finance receivables, net charge-offs in the Commercial segments were 0.46% in the current year, versus 1.68% in 2011 and 2.04% in 2010. Non-accrual loans in the

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(6) *Net operating lease revenue and average operating lease equipment are non-GAAP measures; see reconciliation of non-GAAP to GAAP financial information.*

Commercial segments declined 53% to $330 million (1.93% of Finance receivables) from $701 million (4.61%) at December 31, 2011. This follows a 57% improvement in non-accrual loans in 2011 from 2010, as non-accrual loans have declined from the post-emergence peak of $2.1 billion at June 30, 2010.

The provision for credit losses was $52 million for the current year, down from $270 million and $820 million in 2011 and 2010, respectively. While the improving trend was largely driven by lower charge-offs, the 2010 provision, in particular, included higher amounts to rebuild an allowance following the elimination of the previous amount as FSA was adopted in December 2009 in conjunction with the Company s emergence from bankruptcy.

As a result of adopting FSA, the allowance for loan losses at December 31, 2009 was eliminated and effectively recorded as discounts on loans as part of the fair value of finance receivables. A portion of the discount attributable to embedded credit losses was recorded as non-accretable discount and is utilized as such losses occurred, primarily on impaired, non-accrual loans. Any incremental deterioration of loans in this group results in incremental provisions or charge-offs. Improvements or an increase in forecasted cash flows in excess of the non-accretable discount reduces any allowance on the loan established after emergence from bankruptcy. Once such allowance (if any) has been reduced and the account is returned to accruing status, the non-accretable discount is reclassified to accretable discount and is recorded as finance income over the remaining life of the account. For performing pre-emergence loans, an allowance for loan losses is established to the extent our estimate of inherent loss exceeds the FSA discount. Recoveries on pre-emergence (2009 and prior) charge-offs, and on charge-offs prior to transfer to held-for-sale, are recorded in non-interest income, and totaled $55 million, $124 million and $279 million for 2012, 2011 and 2010, respectively. These declining amounts reflect the longer period away from the emergence date.

The allowance for loan losses is intended to provide for losses inherent in the portfolio based on estimates of the ultimate outcome of collection efforts, realization of collateral values, and other pertinent factors, such as estimation risk related to performance in prospective periods. We may make adjustments to the allowance depending on general economic conditions and specific industry weakness or trends in our portfolio credit metrics, including non-accrual loans and charge-off levels and realization rates on collateral.

Our allowance for loan losses includes: (1) specific reserves for impaired loans, (2) non-specific reserves for losses inherent in non-impaired loans utilizing the Company s internal probability of default / loss given default ratings system, generally with a two year loss emergence period assumption, to determine estimated loss levels and (3) a qualitative adjustment to the reserve for economic risks, industry and geographic concentrations, and other factors not adequately captured in our methodology. Our policy is to recognize losses through charge-offs when there is high likelihood of loss after considering the borrower s financial condition, underlying collateral and guarantees, and the finalization of collection activities.

For all presentation periods, qualitative adjustments largely related to instances where management believed that the Company s current risk ratings in selected portfolios did not yet fully reflect the corresponding inherent risk. The qualitative adjustments did not exceed 10% of the total allowance for any of such periods and are recorded by class and included in the allowance for loan losses.

Management updated and enhanced credit grading models in the quarter ended June 30, 2012 as part of its ongoing model development life cycle. These updates and enhancements did not have a significant impact in the period relative to other factors affecting the allowance. See *Risk Management* for additional discussion on the new model development and the allowance for loan losses.

The following table presents detail on our allowance for loan losses, including charge-offs and recoveries and provides summarized components of the provision and allowance:

Allowance for Loan Losses and Provision for Credit Losses (dollars in millions)

	Years ended December 31				
	CIT			Predecessor CIT	
	2012	2011	2010	2009	2008

	Years ended December 31				
Allowance beginning of period	$ 407.8	$ 416.2	$	$ 1,096.2	$ 574.3
Provision for credit losses(1)	51.6	269.7	820.3	2,660.8	1,049.2
Change related to new accounting guidance(2)			68.6		
Other(1)	(5.9)	(12.9)	(8.2)	(12.2)	(36.8)
Net additions	45.7	256.8	880.7	2,648.6	1,012.4
Gross charge-offs	(141.8)	(368.8)	(510.3)	(2,068.2)	(557.8)
Recoveries(3)	67.6	103.6	45.8	109.6	67.3
Net Charge-offs	(74.2)	(265.2)	(464.5)	(1,958.6)	(490.5)
Allowance before fresh start adjustments	379.3	407.8	416.2	1,786.2	1,096.2
Fresh start adjustments				(1,786.2)	
Allowance end of period	$ 379.3	$ 407.8	$ 416.2	$	$ 1,096.2
Loans					
Commercial Segments	$17,150.2	$15,223.1	$16,572.5	$25,501.4	$40,654.0
Consumer	3,697.4	4,682.8	8,075.9	9,683.7	12,472.6
Total loans	$20,847.6	$19,905.9	$24,648.4	$35,185.1	$53,126.6
Allowance					
Commercial Segments	$ 379.3	$ 407.8	$ 416.2	$	$ 857.9
Consumer					238.3
Total allowance	$ 379.3	$ 407.8	$ 416.2	$	$ 1,096.2

	Provision for Credit Losses			Allowance for Loan Losses		
For the years ended/at December 31:	**2012**	**2011**	**2010**	**2012**	**2011**	**2010**
Specific reserves on commercial impaired loans	$ (9.4)	$ (66.7)	$121.3	$ 45.2	$ 54.6	$121.3
Non-specific reserves commercial	(13.2)	71.2	234.5	334.1	353.2	294.9
Net charge-offs commercial	73.7	262.1	439.2			
Net charge-offs consumer	0.5	3.1	25.3			
Total	$ 51.6	$269.7	$820.3	$379.3	$407.8	$416.2

(1) *Includes amounts related to reserves on unfunded loan commitments, letters of credit and for deferred purchase agreements, which are reflected in other liabilities, as well as foreign currency translation adjustments.*

(2) *Reflects reserves associated with loans consolidated in accordance with 2010 adoption of accounting guidance on consolidation of variable interest entities.*

(3) *Recoveries for the years ended December 31, 2012, 2011 and 2010 do not include $55.0 million, $124.1 million and $278.8 million, respectively, of recoveries of loans charged off pre-emergence and loans charged off prior to transfer to held for sale, which are included in Other Income.*

The allowance for loan losses as a percentage of finance receivables for the Commercial Segments (excluding U.S. government-guaranteed student loans) was 2.21%, 2.68% and 2.51% as of December 31, 2012, 2011 and 2010, respectively. The declining trend in 2012 reflects the previously-mentioned liquidation of lower credit quality legacy assets that had higher expected losses. The rate increase in 2011 also reflects the re-establishment of allowance corresponding to FSA discount accretion.

Including the U.S. government guaranteed student loans, which have no related reserves, the comparable consolidated allowance for loan loss percentages were 1.82%, 2.05% and 1.69%, as of December 31, 2012, 2011 and 2010, respectively. The declining proportion of student loans in the periods presented narrows the gap between the consolidated and commercial allowance rates, and therefore affects the comparability between the overall and commercial portfolio rate trends.

The decline in specific reserves over the past two years, particularly during 2011, is consistent with reduced non-accrual inflows and balances.

FSA discount and allowance balances by segment are presented in the following tables:

Segment FSA Loans Discount and Allowance for Loan Losses (dollars in millions)

	Finance Receivables pre-FSA	FSA Accretable Discount	FSA Non-accretable Discount(1)	Finance Receivables post-FSA	Allowance for Loan Losses	Net Carrying Value
December 31, 2012						
Corporate Finance	$ 8,260.8	$ (69.2)	$ (18.6)	$ 8,173.0	$(229.9)	$ 7,943.1
Transportation Finance	1,896.0	(42.8)		1,853.2	(36.3)	1,816.9
Trade Finance	2,305.3			2,305.3	(27.4)	2,277.9
Vendor Finance	4,841.1	(19.1)	(3.3)	4,818.7	(85.7)	4,733.0
Commercial Segments	17,303.2	(131.1)	(21.9)	17,150.2	(379.3)	16,770.9
Consumer	3,921.6	(224.2)		3,697.4		3,697.4
Total	$21,224.8	$ (355.3)	$ (21.9)	$20,847.6	$(379.3)	$20,468.3
December 31, 2011						
Corporate Finance	$ 7,089.2	$ (178.7)	$ (47.8)	$ 6,862.7	$(262.2)	$ 6,600.5
Transportation Finance	1,564.0	(77.0)		1,487.0	(29.3)	1,457.7
Trade Finance	2,431.4			2,431.4	(29.0)	2,402.4
Vendor Finance	4,516.2	(62.8)	(11.4)	4,442.0	(87.3)	4,354.7
Commercial Segments	15,600.8	(318.5)	(59.2)	15,223.1	(407.8)	14,815.3
Consumer	4,989.4	(303.3)	(3.3)	4,682.8		4,682.8
Total	$20,590.2	$ (621.8)	$ (62.5)	$19,905.9	$(407.8)	$19,498.1
December 31, 2010						
Corporate Finance	$ 8,995.8	$ (611.4)	$(311.5)	$ 8,072.9	$(304.0)	$ 7,768.9
Transportation Finance	1,537.3	(145.3)	(1.7)	1,390.3	(23.7)	1,366.6
Trade Finance	2,387.4			2,387.4	(29.9)	2,357.5
Vendor Finance	4,945.6	(183.6)	(40.1)	4,721.9	(58.6)	4,663.3
Commercial Segments	17,866.1	(940.3)	(353.3)	16,572.5	(416.2)	16,156.3
Consumer	8,584.6	(498.6)	(10.1)	8,075.9		8,075.9
Total	$26,450.7	$(1,438.9)	$(363.4)	$24,648.4	$(416.2)	$24,232.2

(1) *Non-accretable discount includes certain accretable discount amounts relating to non-accrual loans for which accretion has been suspended.*

The following table presents charge-offs, by business segment. See *Results by Business Segment* for additional information.

Charge-offs as a Percentage of Average Finance Receivables (dollars in millions)

	Years Ended December 31,									
	CIT						Predecessor CIT			
	2012		2011		2010		2009		2008	
Gross Charge-offs										
Corporate Finance	$ 52.7	0.70%	$239.6	3.31%	$257.7	2.49%	$1,427.2	7.92%	$186.6	0.89%
Transportation Finance	11.7	0.69%	6.6	0.48%	4.8	0.29%	3.4	0.14%		
Trade Finance	8.6	0.36%	21.1	0.85%	29.8	1.12%	111.8	2.42%	64.1	0.95%
Vendor Finance	67.8	1.49%	97.2	2.16%	191.9	2.81%	386.4	3.36%	181.2	1.57%
Commercial Segments	140.8	0.87%	364.5	2.34%	484.2	2.25%	1,928.8	5.27%	431.9	1.04%
Consumer	1.0	0.02%	4.3	0.06%	26.1	0.30%	139.4	1.17%	125.9	0.99%
Total	$141.8	0.70%	$368.8	1.61%	$510.3	1.68%	$2,068.2	4.27%	$557.8	1.02%
Recoveries(1)										
Corporate Finance	$ 20.3	0.27%	$ 33.5	0.46%	$ 12.0	0.12%	$ 40.4	0.22%	$ 14.5	0.06%
Transportation Finance			0.1	0.01%			0.9	0.04%	1.3	0.05%
Trade Finance	7.8	0.33%	10.9	0.44%	1.2	0.04%	3.2	0.07%	1.9	0.03%
Vendor Finance	39.0	0.86%	57.9	1.29%	31.8	0.47%	58.0	0.50%	43.6	0.38%
Commercial Segments	67.1	0.41%	102.4	0.66%	45.0	0.21%	102.5	0.28%	61.3	0.15%
Consumer	0.5	0.01%	1.2	0.02%	0.8	0.01%	7.1	0.06%	6.0	0.05%
Total	$ 67.6	0.33%	$103.6	0.45%	$ 45.8	0.15%	$ 109.6	0.23%	$ 67.3	0.12%
Net Charge-offs(1)										
Corporate Finance	$ 32.4	0.43%	$206.1	2.85%	$245.7	2.37%	$1,386.8	7.70%	$172.1	0.83%
Transportation Finance	11.7	0.69%	6.5	0.47%	4.8	0.29%	2.5	0.10%	(1.3)	(0.05)%
Trade Finance	0.8	0.03%	10.2	0.41%	28.6	1.08%	108.6	2.35%	62.2	0.92%
Vendor Finance	28.8	0.63%	39.3	0.87%	160.1	2.34%	328.4	2.86%	137.6	1.19%
Commercial Segments	73.7	0.46%	262.1	1.68%	439.2	2.04%	1,826.3	4.99%	370.6	0.89%
Consumer	0.5	0.01%	3.1	0.04%	25.3	0.29%	132.3	1.11%	119.9	0.94%
Total	$ 74.2	0.37%	$265.2	1.16%	$464.5	1.53%	$1,958.6	4.04%	$490.5	0.90%

(1) *Net charge-offs do not include recoveries of loans charged off pre-emergence and loans charged off prior to transfer to held for sale, which are recorded in Other Income.*

Gross and net charge-offs, both in amount and as a percentage of AFR, declined to their lowest levels since 2007. Net charge-offs in the Commercial segments declined to 0.46% of AFR from 1.68% in 2011, with all segments except Transportation Finance contributing to the decline. The Transportation Finance write-offs of 0.69% for the current year primarily reflected charge-offs on two loans secured by aviation equipment, which introduced short-term volatility to the trends. Recoveries, while down from 2011 in amount, remained strong in relation to gross charge-offs.

Following a spike in 2009, Vendor Finance charge-offs were high in 2010 due to a policy refinement in the third quarter, which accelerated delinquency-based charge-offs to 150 days from the previous 180 days. Charge-off trends have consistently improved since then. The decline in Consumer charge-offs over the time period above reflects the reduction in the private student loan portfolio. As of December 31, 2012, the Consumer portfolio consists of student loans that are 97% 98% guaranteed by the U.S. government, thereby mitigating our ultimate credit risk.

The tables below present information on non-performing loans, which includes assets held for sale for each period:

Non-accrual and Accruing Past Due Loans at December 31 (dollars in millions)

	CIT				Predecessor CIT	
	2012	**2011**	**2010**	**2009**	**2009(1)**	**2008**
Non-accrual loans						
U.S.	$273.2	$623.3	$1,336.1	$1,465.5	$2,335.3	$1,081.7
Foreign	57.0	77.8	280.7	108.8	292.4	138.8
Commercial Segments	330.2	701.1	1,616.8	1,574.3	2,627.7	1,220.5
Consumer	1.6	0.9	0.7	0.1	197.7	194.1
Non-accrual loans	$331.8	$702.0	$1,617.5	$1,574.4	$2,825.4	$1,414.6
Troubled Debt Restructurings						
U.S.	$263.2	$427.5	$ 412.4	$ 116.5	$ 189.2	$ 107.6
Foreign	25.9	17.7	49.3	4.5	24.9	21.7
Restructured loans	$289.1	$445.2	$ 461.7	$ 121.0	$ 214.1	$ 129.3
Accruing loans past due 90 days or more						
Government guaranteed accruing student loans past due 90 days or more	$231.4	$390.3	$ 433.6	$ 480.7	$ 493.7	$ 466.5
Other accruing loans past due 90 days or more	3.4	2.2	1.7	89.4	88.2	203.1
Accruing loans past due 90 days or more	$234.8	$392.5	$ 435.3	$ 570.1	$ 581.9	$ 669.6

(1) *Reflects balances pre-FSA.*

Segment Non-accrual Loans as a Percentage of Finance Receivables at December 31 (dollars in millions)

	2012		2011		2010	
Corporate Finance	$211.9	2.59%	$497.9	7.26%	$1,225.0	15.17%
Transportation Finance	40.5	2.18%	45.0	3.03%	63.2	4.55%
Trade Finance	6.0	0.26%	75.3	3.10%	164.4	6.89%
Vendor Finance	71.8	1.49%	82.9	1.87%	164.2	3.48%
Commercial Segments	330.2	1.93%	701.1	4.61%	1,616.8	9.77%
Consumer	1.6	0.04%	0.9	0.02%	0.7	0.01%
Total	$331.8	1.59%	$702.0	3.53%	$1,617.5	6.57%

Similar to last year, non-accrual loans declined in excess of 50% from the prior year, with all commercial segments reporting reductions, both in amount and as a percentage of finance receivables. The improvement in 2012 was particularly noteworthy in Trade Finance and Corporate Finance, which reflected repayments and resolutions, as well as returns to accrual status where appropriate.

As mentioned earlier, our credit metrics have been improving since the latter half of 2010. Non-accrual levels at June 30, 2010 were at, or near, historical highs, due to the combination of continued global economic weakness and circumstances specific to the Company s emergence from bankruptcy. This was most evident in Corporate Finance and Trade Finance. In Corporate Finance, non-accrual loans had increased significantly in the printing, publishing, commercial real estate, energy, lodging, leisure and small business sectors. The segment s cash flow portfolio was most severely impacted. In Trade Finance, nonaccrual balances increased in 2010 from 2009 as clients and retailers remained challenged by reduced consumer demand resulting from high unemployment levels.

Approximately 80% of our non-accrual accounts were paying currently at December 31, 2012, and our impaired loan carrying value (including FSA discount, specific reserves and charge-offs) to estimated outstanding contractual balances approximated 65%. For this purpose, impaired loans are comprised principally of non-accrual loans over $500,000 and TDRs.

Total delinquency (30 days or more) in our commercial segments were flat as a percentage of finance receivables at 1.7%, but did experience a $27 million increase compared to December 31, 2011. An increase in the 30 59 day category of $73 million was partially offset by decreases in the 60-89 and 90+ categories, and reflected certain non-credit (administrative) delinquencies in Vendor Finance, as well as normal month to month fluctuations.

Foregone Interest on Non-accrual Loans and Troubled Debt Restructurings (dollars in millions)

	2012			2011			2010		
	U.S.	Foreign	Total	U.S.	Foreign	Total	U.S.	Foreign	Total
Interest revenue that would have been earned at original terms	$66.5	$12.1	$78.6	$169.4	$18.6	$188.0	$244.7	$35.6	$280.3
Less: Interest recorded	23.7	3.7	27.4	18.7	6.0	24.7	35.4	15.0	50.4
Foregone interest revenue	$42.8	$ 8.4	$51.2	$150.7	$12.6	$163.3	$209.3	$20.6	$229.9

The Company periodically modifies the terms of loans / finance receivables in response to borrowers difficulties. Modifications that include a financial concession to the borrower, which otherwise would not have been considered, are accounted for as troubled debt restructurings (TDRs). For those accounts that were modified but were not considered to be TDRs, it was determined that no concessions had been granted by CIT to the borrower. Borrower compliance with the modified terms is the primary measurement that we use to determine the success of these programs.

The tables that follow reflect loan carrying values as of December 31, 2012 and 2011 of accounts that have been modified.

Troubled Debt Restructurings and Modifications at December 31 (dollars in millions)

2012	2011	2010

	Excluding FSA	Including FSA	% Compliant(1)	Excluding FSA	Including FSA	% Compliant(1)	Excluding FSA	Including FSA	% Compliant(1)
Troubled Debt Restructurings									
Deferral of principal and/or interest	$258.2	$248.5	98%	$461.8	$394.8	94%	$345.8	$247.9	86%
Debt forgiveness	2.8	2.5	95%	17.9	12.5	96%	66.1	45.4	96%
Interest rate reductions	14.9	14.8	100%	24.6	19.0	100%	9.1	7.4	99%
Covenant relief and other	25.4	23.3	80%	27.0	18.9	77%	188.8	161.0	55%
Total TDRs	$301.3	$289.1	97%	$531.3	$445.2	94%	$609.8	$461.7	76%
Percent non accrual	29%	29%		66%	63%		95%	95%	

Modifications(2)	Excluding FSA	% Compliant(1)	Excluding FSA	% Compliant(1)	Excluding FSA	% Compliant(1)
Extended maturity	$124.7	97%	$183.6	100%	$ 93.0	100%
Covenant relief	115.5	100%	157.4	100%	61.4	100%
Interest rate increase/additional collateral	80.3	100%	14.9	100%	126.3	100%
Deferment of principal			0.3	100%	19.1	98%
Other	62.8	100%	120.4	100%	71.0	63%
Total Modifications	$383.3	99%	$476.6	100%	$370.8	93%
Percent non-accrual	27%		10%		41%	

(1) *% Compliant is calculated using carrying values including FSA for Troubled Debt Restructurings and carrying values excluding FSA for Modifications.*

(2) *Table depicts the predominant element of each modification, which may contain several of the characteristics listed.*

See *Note 2 Loans* for additional information regarding TDRs and other credit quality information.

NON-INTEREST INCOME

Non-interest Income (dollars in millions)

	Years Ended December 31,		
	2012	2011	2010

	Years Ended December 31,		
Rental income on operating leases	$1,784.6	$1,667.5	$1,648.4
Other Income:			
Factoring commissions	$ 126.5	$ 132.5	$ 145.0
Gains on sales of leasing equipment	117.6	148.4	156.3
Fee revenues	86.1	97.5	124.0
Gains on loan and portfolio sales	192.3 &n		